

A stylized illustration of a wine bottle pouring liquid into a glass. The bottle is on the left, tilted, with a greenish-grey liquid flowing out. The glass is on the right, partially filled with a light beige liquid. A small black silhouette of a person stands at the bottom right, holding the glass. The background is white.

MajesticWineplc

Past the tipping point

Annual Report
and Accounts 2017



INTRODUCTION

We are past the tipping point, both financially and operationally.

Financially, Adjusted EBIT in the second half of the year is up 51% on the prior year.

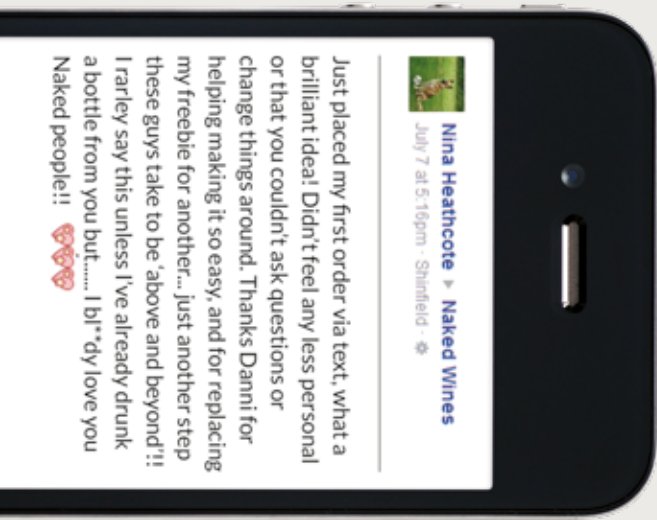
Operationally, we are through the most risky and cost-intensive phase of our transformation plan.

Together these mean we have a business with a sustainable growth model, with the big strategic questions answered, a better paid and rewarded workforce and more effective systems and processes. In short, a business that is better able to weather the uncertain trading environment we find ourselves in.

We remain confident, despite tough economic conditions, as transformation benefits are coming through and our costs are naturally coming down as a result of us reaching the next stage of the transformation plan. We can therefore reiterate our £500m sales goal by 2019 and affirm current analyst profit expectations.

Rowan Gormley
Chief Executive

Lift here
For an overview of
Majestic Wine plc



The difference in these wines is unbelievable compared to the supermarket, very happy.

Lisa Vickers,
Naked Wines
Angel

@majesticwine
never had
customer service
like it. Sharlene
and Matt in your
Shoreditch store
are incredible.
Special people.
Declan Gorman,
@DeclanGorman1

@nakedwines have the best wine and the best customer service #zingaling



I love your site. I love what you do, how you present it, and that I get really good wine for great value. I love that there is a simple way for me to track my tastes and educate myself about wine while supporting both your business and the wine growers – it seems to be a win win win.

Marc Ingram, Naked Wines Angel

We would both like to say how much we appreciate Majestic in Hereford. The staff are always friendly and helpful. They are very knowledgeable and keen to pass this onto customers. Equally, their approach is never high-handed or supercilious, as with some other wine sellers. We notice they have exactly the same approach with other customers too, not just us.

Peter and Jane Kisby



TRANSFORMATION PLAN

We have passed the tipping point both financially and operationally. Adjusted EBIT in the second half of the year was up 51% on the prior year and we are through the most risky and cost-intensive phase of our transformation plan.

Progress:

+16pps

Improvement in product availability in Majestic Retail

76,000

hours saved from 'dull' store tasks

+92,000

more repeat customers in Majestic Retail and Naked Wines year on year

83%

return on investment in Naked Wines

OVERVIEW

About us Majestic Wine plc is a leading wine specialist operating four divisions, each targeting unique customer segments with unique propositions.

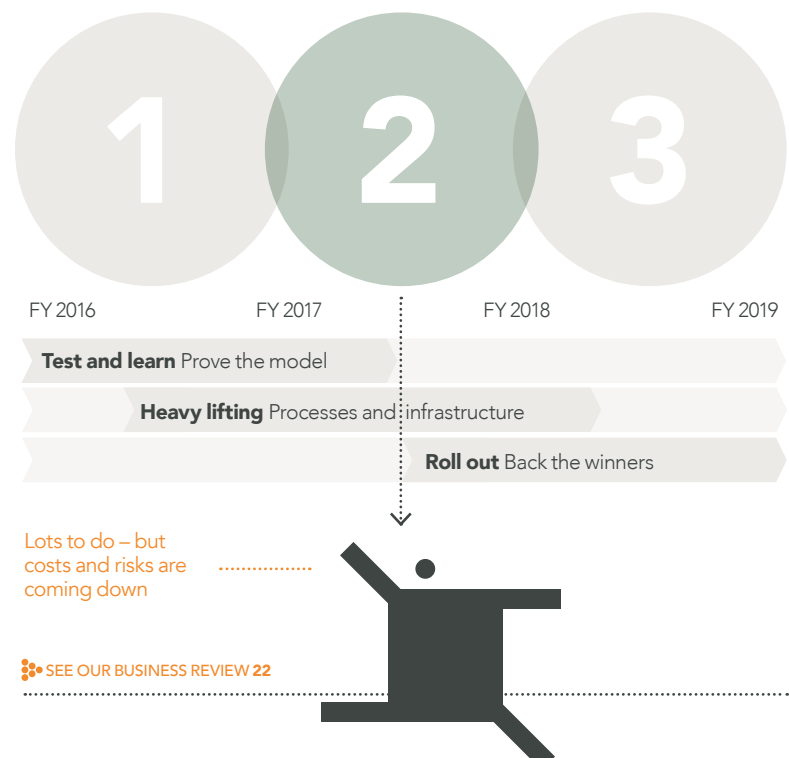
Our mission We are committed to delivering sustainable growth in shareholder value through:

1. Doing the right thing for our customers, suppliers and people
2. Disciplined and aggressive investment
3. A data driven test and learn culture

Our strategy Our data driven virtuous circle



The three-year plan The plan is on track and on time and on budget.



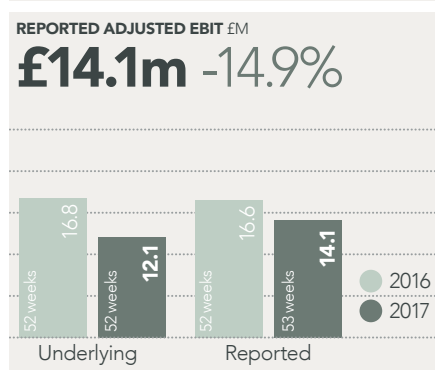
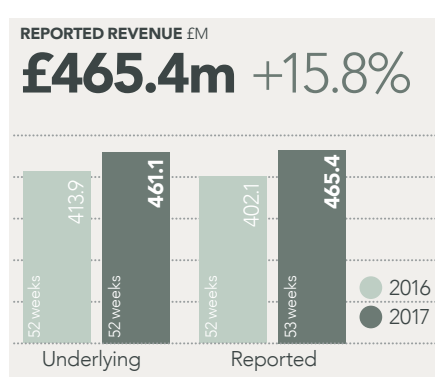
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HIGHLIGHTS

- Sales up 15.8% on a reported 53-week basis, 11.4% on an underlying 52-week basis, driven by 12% growth in the Group customer base to 852,000 active customers⁽¹⁾. Multichannel orders now account for 56% of group sales
- Full-year reported adjusted Profit Before Tax (PBT) down to £12.9m, reflecting previously announced transformation costs
- H2 adjusted earnings before interest and taxes (EBIT) up 51.0%, an encouraging performance where transformation costs are fully annualised and benefits are starting to come through
- Full-year reported PBT was a loss of £1.5m, largely reflecting acquisition-related non-cash charges (see financial note 4 for details)
- Key transformation projects on track
- Return on Investment (ROI) on new customer acquisition in Naked Wines at 139% in H2, 83% for the year
- Reporting of free cash flow and net debt were negatively impacted by short-term timing of payments falling in the 53rd week, which reverse shortly after the year end
- Final dividend of 3.6 pence per share, total dividend of 5.1 pence for the year

FINANCIAL HIGHLIGHTS



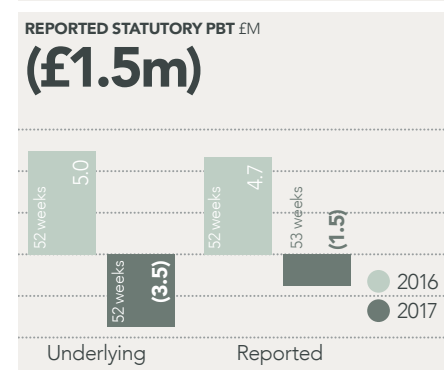
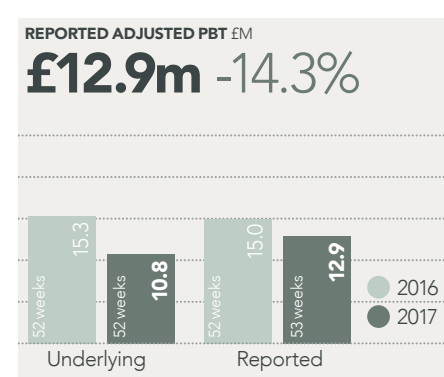
Note

To provide a meaningful comparison with last year, operating performance commentary is stated on an underlying basis (unless otherwise stated) which means:

- Pro-forma presentation of Naked Wines, assuming that Naked Wines was included in the Group results for the whole of the comparative period
- En primeur revenues are included in year of order, not year of fulfilment
- Calculated using constant foreign exchange rates for translation of the comparative period
- Adjusting the current year to a 52-week period, comparable with the prior year

A full reconciliation between our reported numbers and these underlying measures, alongside analysis of the H1 and H2 comparatives is provided on the first page of the Financial review on page 32.

- (1) Total active customers are repeat Majestic customers plus Naked Wines Mature Angels.



Forward-looking statements This Annual Report contains certain forward-looking statements with respect to the operations, strategy, performance, financial condition and growth opportunities of the Group. By their nature, these statements involve uncertainty and are based on assumptions and involve risks, uncertainties and other factors that could cause actual results and developments to differ materially from those anticipated.

The forward-looking statements reflect knowledge and information available at the date of preparation of this Annual Report and, other than in accordance with its legal and regulatory obligations, the Company undertakes no obligation to update these forward-looking statements. Nothing in this Annual Report should be construed as a profit forecast.

Majestic Wine plc

At a glance



We help people find wines they will love



Market size
£2.2bn

Reported sales for the year to 3 April 2017
(% of Group sales)
£262.2m



Reported Adjusted EBIT
£13.3m

Underlying sales growth (total)
+5.4%

Description
The UK's largest specialist wine retailer, with 210 branches in the UK, two in France, and over 1000 highly trained, specialist people.

Investment proposition
Cash generative retail business transforming into a multi-channel business.

Competitive advantage
1000 delightful team members who love and know wine.

Highlights
• Customer base grown 7%
• Transformation plan on track

The plan

Restore



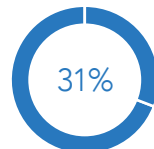
Making great wine an everyday pleasure, not a privilege



Market size
£17.0bn

UK £2.0bn
USA £14.0bn
AUS £1.0bn

Reported sales for the year to 3 April 2017
(% of Group sales)
£144.3m



Reported Adjusted EBIT
£1.4m

Underlying sales growth (total)
+26.3%

Description
Naked Wines funds independent winemakers to make exclusive wines at preferential prices, which we pass onto our customers.

Investment proposition
Subscription business model with direct marketing expertise.

Competitive advantage
The model – crowdfunding independent winemakers.

Highlights
• ROI of 83%
• 363,400 Mature Angels

The plan

More focused investment



We make your wine list profitable



Market size
£2.0bn

Reported sales for
the year to 3 April 2017
(% of Group sales)
£46.6m



Reported Adjusted EBIT
£2.5m

Underlying sales growth
(total)
+0.8%

Description

A specialist on-trade supplier targeting independent restaurants and pubs, with the unique advantage of running their supply chain through Majestic Retail stores.

Investment proposition

Focused on an unloved section of the trade market.

Competitive advantage

210 delivery hubs enabling more effective, local service.

Highlights

- Reorganisation complete

The plan

Unlock potential

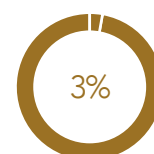


Your trusted guide into fine wine



Market size
£0.7bn

Reported sales for
the year to 3 April 2017
(% of Group sales)
£12.3m



Reported Adjusted EBIT
£1.0m

Underlying sales growth
(total)
+36.2%

Description

Specialist fine wine merchant. Lay & Wheeler aims to be a trusted guide for people who love fine wine, supplying the world's finest wines with a personal service.

Investment proposition

Creating a business opportunity out of the demise of en primeur.

Competitive advantage

Committed team specialising in helping everyday people discover fine wine.

Highlights

- Returned to growth for the first time in many years

The plan

Establish new model

Chairman's statement

Thank you... to all of our investors who have been with us through the first phase of the transformation plan. The first stage of any transformation is always the most complex and risky, so I wanted to thank you for your support and your confidence.

Overview

This is my last Chairman's report, as I will be retiring in August, and handing over to the very talented Greg Hodder – more of that later.

This feels like the perfect time for a handover. Two years ago, our Company was experiencing falling like for like sales and profits, with no international exposure and limited success in delivering a multi-channel offer.

With the acquisition of Naked Wines in 2015, and the transformation plan we have driven through, we are now in a very different position.

- ➊ Sales are growing at double digit rates in a very tough market, driven partly by the fabulous growth of Naked but also, critically, through a return to like for like sales growth in the core retail business
- ➋ We now have international sales of £88m, growing at 52.7% this year, and multichannel orders now account for 56% of Group sales

This report marks the halfway point on a three-year journey and the right time for me to hand over the baton to a new Chairman for the next stage in our development.



Performance

A very strong second half trading performance in addition to solid executional progress with our transformation plan initiatives meant we finished the year in good shape. However, our first half saw the need for a disappointing unscheduled trading update following weak trading in our Commercial division and an unsuccessful investment in direct mail by Naked Wines USA. This was a painful experience for us all but I am pleased that the Executive team responded positively to this setback, taking the necessary actions to ensure that this was a one-off and redoubling their efforts to deliver a successful second half.

On an underlying 52-week basis, full-year sales of £461.1m are up 11.4%. Adjusted PBT was £10.8m, reflecting a very strong performance in the second half of the year. Turning to the reported numbers, which are impacted by a 53rd week, we have reported a statutory loss of £1.5m due to the continued non-cash charges relating to the Naked Wines acquisition, one-off costs and revaluation of our foreign currency positions. Our balance sheet remains in good health. Finance costs were 20.6% lower this year despite free cash flow for the year, reported at £6.2m, being impacted by the timing of year end due to our 53rd week. Since year end we have paid down £9m of our revolving credit facility. Our plan is progressing well, we are on track with where we said we would be and we are looking forward to an exciting 12 months, albeit in a difficult trading environment.

Key factors driving this year's performance were:

- ➊ Continued growth in like for like performance in Majestic Retail, where the business model of driving sales growth by focusing on customer loyalty has now delivered eight consecutive quarters of like for like sales growth of 5.7% and a total sales performance of 5.4% growth on a more streamlined store base.
- ➋ Strong growth from Naked Wines, especially in the exciting US and Australian markets
- ➌ Finally I'm delighted to report that Lay & Wheeler, our fine wine business, after years of languishing in the doldrums grew sales strongly at 36.2% and turned from generating a small profit to making a meaningful contribution to the Group bottom line

We have also seen continued progress on our five Key Performance Indicators across the Group, which gives me faith in the sustainability of the transformation.

Dividend

I am very pleased to be announcing a final dividend of 3.6p. Combined with the interim dividend of 1.5p, this gives a total dividend of 5.1p for the year, in line with our policy of distributing 35% of adjusted earnings. This demonstrates our confidence in continued cash

generation and commitment to deploying capital efficiently. Our dividend policy allows us to reinvest in the business where we see the best opportunities, pay down our debt and return surplus cash to shareholders and this is exactly what we're doing.

Board changes

As announced on 15 June, I have decided to retire from the Board this year. Greg Hodder has now been appointed as Chairman-Designate, formally taking over as Chairman at the conclusion of the AGM.

Greg's extensive retailing and ecommerce experience, along with his first-hand knowledge of the wine market and the USA, our biggest growth market, make him the ideal person to take over from me at this stage of the transformation plan. Greg has made a huge contribution in the Board room since joining two years ago and it is clear to us all that he is an excellent fit as Chairman.

With the Group larger and more international, now is the time to appoint a Senior Independent Director. I am delighted to report that Ian Harding has accepted this new role; which will further utilise his experience and he will be of great support to the Chairman and the Board.

We've got a strong mix of skills on our Board; which will support the Group through the next stage of the transformation plan.

Looking forward

I commend Rowan and the whole of his Executive team for their commitment to this transformation, the scope and volume of projects they have implemented is testament to their skill and determination.

We are committed to achieving £500m in sales by 2019 and delivering analyst profit expectations. The wine market in the UK is incredibly competitive but we are continuing to grow our customer base while doing the heavy lifting as part of our transformation plan. Myself and the rest of the Board remain positive about the coming years for the Majestic Group.

Goodbye

It has been a privilege for me to be a part of such an important time in Majestic's history. I thank all of the wonderful colleagues I have worked with over the years for their hard work, support and dedication and I wish everyone great success for the future. May the wine flow...



Phil Wrigley
Chairman

Why we don't follow the crowd when it comes to our people



Right now, all retailers are looking hard at their cost base, and that has to be common sense. But sometimes the right thing to do is to do the opposite of everyone else – and this may be one such case.

The key to sustainable growth is to look after your people, customers and suppliers. Even in an uncertain market. This does not mean that we are a charity – we drive a hard bargain like everyone else.

What it does mean is that sometimes you make more money by investing when everyone else is pulling back. This is the premise we are using to transform Majestic. The lessons we learned may seem counterintuitive, but we can prove that they work.

If you look after your people and suppliers, in turn, they look after your customers. So sales grow, profits grow and the business generates cash. You can then invest that cash back into growth. That makes the whole cycle sustainable and you create a virtuous circle.

We told you last year that customers who have a five-star experience are 62% more valuable than customers who have a four-star experience, that's why we are investing to keep our best people.

A fundamental challenge all retailers who invest in their people face is losing their best store staff. This year we decided we needed to give our people more influence over their lives and money as they progress with us so we are currently trialling the **Majestic Partners programme**.

Majestic Partners will have the chance to literally run their own shop. Instead of earning a percentage of sales, they will earn a significantly larger percentage of their store's contribution by having more control over the day-to-day running of their store. We currently have a test group pioneering this new experiment and over time we expect 50 – 60% of our store managers to be part of it. We believe this new programme has the potential to pay for itself several times over. As we said at the beginning, we believe that the best way to build sustainable growth is to look after your people and your suppliers, so your customers become loyal. It sounds simple but, so far, it works.

If you want to learn more about companies doing something similar to us, read a book called *The Outsiders*, by William Thorndike, for some examples.



Chief Executive's statement

18 months into our transformation plan, we have **passed the tipping point, both financially and operationally.**

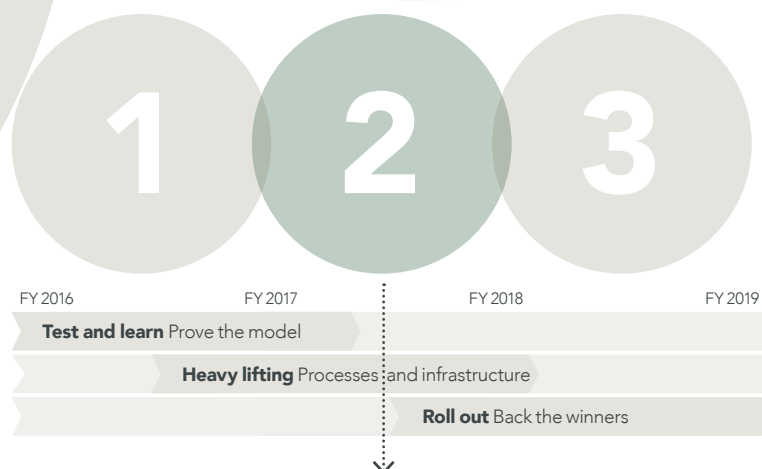
We are moving out of the 'test and learn phase' of the plan and into the 'roll out' phase – which comes with less risk and lower investment.

A great way to illustrate this is that the list of projects in Majestic Retail which has fallen from twenty-four last year to just six this year. There is still a lot to be done, but we are a better business today than we were 18 months ago, when we started our transformation plan.

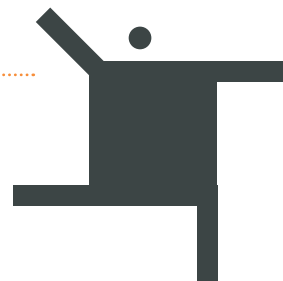
Reminder

Where we are in the transformation timetable

TRANSFORMATION PLAN



Lots to do – but costs and risks are coming down



1

What is the plan?

This is a summary of the full three-year transformation plan. If you want to see the detailed version, it is set out in last year's 2015/16 Annual Report.

Like all management teams, our job is to deliver sustainable growth in shareholder value.

What is different is how we are doing it. We believe that for shareholder value growth to be truly sustainable, it has to be driven by:

- ➔ Growing the customer base, rather than the number of stores
- ➔ The best way to grow the customer base is by retention
- ➔ To get retention you need loyalty, which requires a market-leading proposition
- ➔ To deliver a market-leading proposition you need the loyalty of your people and suppliers

To drive this growth we have diverted the £8m a year we were spending on opening new stores, and invested it into the people and the customer proposition.

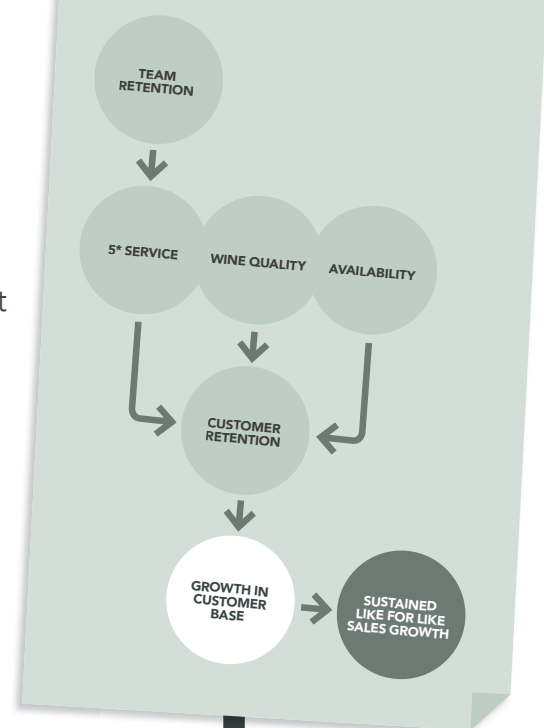
This diversion does not cost more cash – but it does go straight to the income statement, so produces a short-term hit to profits.

So the questions I need to address are:

- ➊ What is the plan?
- ➋ Is it working?
- ➌ What did not go right?
- ➍ What has changed?
- ➎ What is the outlook?

Reminder

The best way to measure progress through our plan is to look at the 5 KPIs we report on each year:



Chief Executive's statement
continued

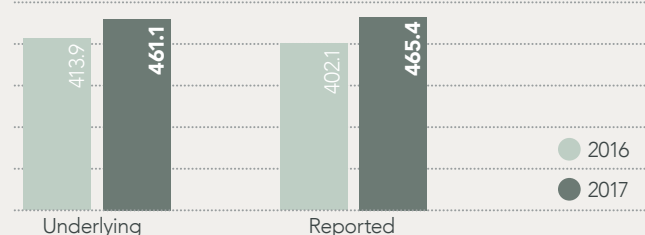
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Is it working?

In a word, yes. There is still a lot to do, and not everything has worked as we wanted it to (more of that later) but the overall proposition is working.

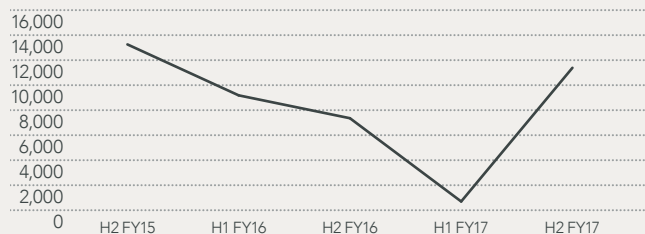
We now have eight consecutive quarters of like for like growth in Majestic Retail, eight years of the same in Naked Wines, and although 160 years old, Lay & Wheeler has been returned to double digit growth!

REPORTED REVENUE £M

£465.4m +15.8%**Sales are all very well... what about the profit?**

I am pleased to report that adjusted EBIT in the second half was 51.0% higher year on year:

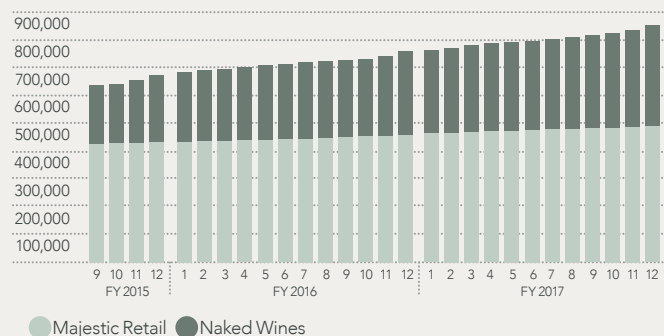
ADJUSTED EBIT – UNDERLYING £M

+51.0%

This in turn is driven by the 7% growth in our customer base in Majestic Retail and 21% growth in our customer base at Naked Wines. Our full year underlying adjusted EBIT was lower, at £12.1m, reflecting:

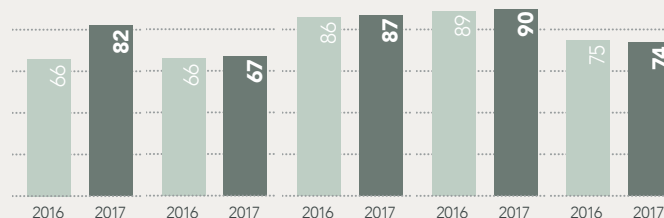
- The investments made as part of the transformation plan
- Disappointing performance of our Commercial business
- The failed Naked Wines USA direct marketing campaign

ACTIVE CUSTOMER BASE



Which is in turn driven by focusing on our Key Performance Indicators (KPIs):

MAJESTIC RETAIL PRODUCT AVAILABILITY %	NAKED WINES CUSTOMER RETENTION %	MAJESTIC RETAIL 5* SERVICE %	NAKED WINES BUY IT AGAIN RATING %	MAJESTIC RETAIL TEAM RETENTION
2016: 66	2016: 66	2016: 86	2016: 89	2016: 75
2017: 82	2017: 67	2017: 87	2017: 90	2017: 74



By definition these measures will take time to respond to our initiatives, although we are beginning to see some encouraging early signs.

GROUP KPI	MAJESTIC RETAIL	NAKED WINES	MAJESTIC COMMERCIAL	LAY & WHEELER
Repeat customer retention % of repeat customers from 12 months ago that are still repeat customers, as measured from our customer databases	68% ⁽¹⁾ FY16: 68%	67% FY16: 66%	76% FY16: 80%	73% ⁽²⁾ FY16: 92%
Product availability % of targeted range available in stores/on websites as indicated by our inventory reporting	82% FY16: 66%	85% FY16: N/A	79% FY16: N/A%	N/A
Team retention % of key staff (e.g. store managers) as of 12 months ago still working per payroll records	74% FY16: 75%	64% FY16: N/A	62% FY16: 81%	79% FY16: 76%
Wine quality (Buy It Again ratings) % of "Yes" scores in the last 12 months as recorded by websites/apps	91% FY16: N/A	90% FY16: 89%	N/A FY16: N/A	N/A
Proportion of 5* service ratings % of service ratings scoring 5* in last two months as recorded by websites/apps/telephone feedback	87% FY16: 86%	89% FY16: 90%	N/A FY16: N/A	93% FY16: N/A

Note

(1) The Retail customer retention number has remained flat. This is a mix variance, dragged down by the growth in customers buying five or fewer bottles. Retention for customers buying six or more bottles of wine remains stable.

(2) Lay & Wheeler has started acquiring new customers with higher attrition. The core customer base remains stable.

Note

We also measure some additional different KPIs in each of the businesses, which you will see discussed in the divisional updates.

Although the model of 'grow sales by growing customers by improving retention' is appealingly simple, it does not make us immune to the economic cycle. We will still be impacted by consumer demand, currency movements etc.

Sales are up, customers are up, our KPIs are moving in the right direction.

Chief Executive's statement
continued

Finally, the movement in the KPIs is driven by the projects we have invested in:

WHERE WE'RE INVESTING	INVESTMENT FOCUS	OUTCOME
Team Retention	- Enhanced bonus scheme - Improved learning and development	Staff retention stable at 74% in Majestic Retail
5* service and store experience	- Maintenance – improving store environment - Refurbishments and refits of stores - Measuring staff performance and rewarding store staff on 5* service scores	- Estate looks more loved - Shelving has reduced task hours - Retention for customers buying six or more bottles of wine remain stable - Customised range in every store
Availability	- Right range, in the right place - National Fulfilment Centre – we now have same day delivery and a much broader range	- Availability up from 66% to 82% in Majestic Retail - Opportunity to eliminate £1.8m inter-branch transfer cost
Wine quality	- New merchandising function - Range more unique and exciting - Improving consistency across the estate	- Staff and customers more enthused by the range - Buy it Again Ratings at 91% in Majestic Retail
Customer communications	- Better targeting of messages to different customer segments - Bringing analytics and ecommerce management in house to improve performance	15% improvement in welcome process - Number of active Majestic Retail customers up 7%
Systems and processes	- IT – In-house team building replacements for dated and outsourced systems - Finance – Improved pace of accounting cycle, additional business support, new credit control function, Group controls and compliance function established	Huge impact on store labour – eliminating 76,000 hours of dull task from store teams, e.g. double keying online orders and interbranch transfers

3

What did not go right?

Margin

Britain's vote to leave the EU has hit the buying power of the pound, which has in turn increased our cost of goods. The impact of this was smoothed by hedging, and market pricing has adjusted to recover the margins, but the impact on price has had a short-term impact on margin, is likely to have a longer-term impact on demand, and may impact our operation in Calais.

Commercial

You may remember that we separated our specialist business-to-business (B2B) division, Majestic Commercial, from the core Retail business, because it was apparent that Commercial's growth was hampering Retail. This proved to be the right decision, but has exposed the extent to which Commercial relied on a cross subsidy of time and effort from their Retail colleagues, in the absence of strong systems and processes. We have reorganised the Commercial division, focused on looking after our existing customers before growth, and stabilised the business to provide a solid platform for growth.

Naked Wines USA – direct mail campaign

We reported at the half-year that, despite promising early tests, a large direct mail campaign we ran in Naked Wines USA failed to deliver its targets. I am pleased to report that in H2, we grew total Naked Wines sales by 26.3%, customers by 21% and restored ROI on new customer acquisition to historic levels of 83% by focusing on acquisition of high-quality Angels.

Staff retention

One number that has proved difficult to move is staff retention in the core Retail business. The fundamental reason for this is that the best people have been frustrated by the fact that there is nowhere to go once you make it to store manager. We have probably been over cautious in addressing this historically, but have now tackled the issue head on by testing a new Partnership programme where store managers are given the chance to literally run their own shop. Managers will be able to earn a percentage of their store's contribution by having more control over the day-to-day running of their own store.

Transparency
is always the
best policy.



4

What has changed?

1. We know what works much better than we did two years ago

- ➔ We have confidence that the model works
- ➔ We can sell own label
- ➔ Targeted marketing is working better than spray and pray
- ➔ Shelving stores has reduced task hours
- ➔ Customers value next day delivery

2. A bunch of the heavy lifting has been done – and plenty more is under way

- ➔ We have taken a big chunk of dull labour out of stores
- ➔ We are able to start delivering customer-facing technology
- ➔ Better product availability improvements mean more sales and less running around in vans
- ➔ All planned costs of the transformation plan have now been implemented

3. The economy

- ➔ Slower consumer demand
- ➔ Currency fluctuations



Chief Executive's statement
continued

5

What is the outlook?

In short, we are in much better shape than we were two years ago – and we need to be, because UK retail is likely to be in for a rough ride, with downward pressure on demand, due to falling household incomes and upward pressure on prices.

However, it is not all doom and gloom. We are moving into a lower risk and lower investment phase of our transformation plan, which means that, despite anticipating tougher times ahead, we feel able to:

- ➔ Reiterate our sales target of £500m in 2019
- ➔ Remain comfortable with market profit expectations*

Of course, this guidance assumes that there is no further deterioration in trading conditions and no exceptional fallout from Brexit. I wish I had a crystal ball to predict what the outcome might be, but in the absence of that, all we can do is stick to our transformation plan.

Thank you for your loyalty in being an investor at a time when we needed to invest to restore your company to growth. At a time when the economy could provide headwinds, I am looking forward to rewarding your loyalty with some great numbers.

Phil Wrigley

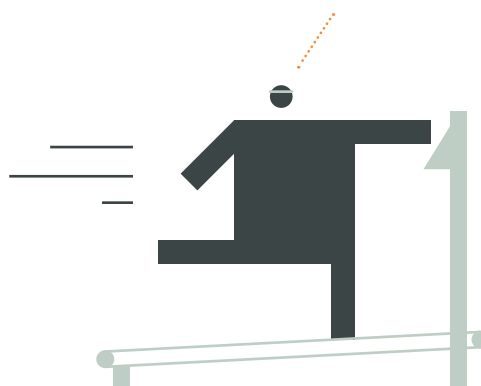
Finally, I would like to thank Phil for the enormous contribution he has made to building a solid future for your company. He has brought a huge dose of wisdom, decades of retail experience and an acute insight into people, all combined with a wicked sense of humour and warm personality. He will be greatly missed, and we wish him all the best in a well-earned retirement.


Rowan Gormley

Chief Executive

14 June 2017

We're in better
shape. But we
need to keep it up!



* 15 June 2017: Market consensus is available on our PLC website: www.majesticwineplc.co.uk

Divisional update

2017 has been a mixed year, with a very strong second half following a disappointing first half.

I have covered the issues that impacted H1 above, so I won't repeat myself. For more detail on divisional performance, please see our divisional reports from page 22.

SEE OUR BUSINESS REVIEW 22



Majestic Retail

We are now in the eighth consecutive quarter of like for like sales growth for Majestic. Underlying sales growth for the year was up 5.4% to £258.5m. Adjusted EBIT was down 13.4% to £12.3m as a result of our transformation investments. Gross margin was down 0.7pps, the majority of which were Brexit-related currency impacts. Pleasing progress has been made with the transformation and we have delivered continued improvement in our KPIs. The planned transformation investment was all in the cost base by the end of H1, resulting in H2 adjusted EBIT increasing by 28.4% to £8.8m.



Naked Wines

Naked has shown continued strong sales growth of 26.3% to £142.2m with the US business delivering 28% sales growth. Gross profit is up from £39.6m to £48.2m, despite the previously reported failed direct marketing campaign which hit profits by £2m to result in an adjusted EBIT of £0.6m. Gross investment in new customer acquisition increased to £4.8m.

It is worth looking at the second half performance of Naked Wines to get a picture of what the ongoing business looks like compared with the same period last year:

- Sales were up 26.0%
- Adjusted EBIT was up 665.5% at £3.4m
- ROI on new customer acquisition was 139% in H2, up from 48% in the first half of FY2016/17

Commercial

It's been a disappointing year in both sales and profit for Commercial. Sales were up 0.8% to £46m and Adjusted EBIT was down 36.5% to £2.4m. We have restructured and stabilised the business. Staff and customer retention has been restored.

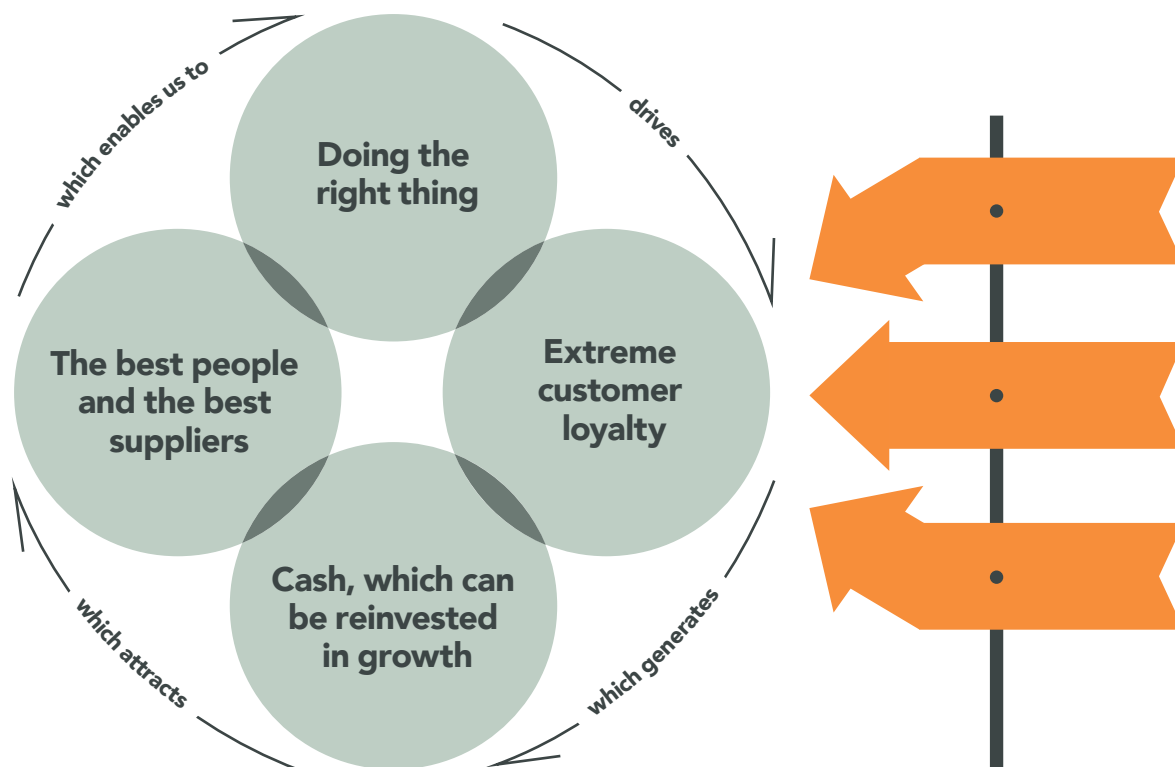


Lay & Wheeler

I am delighted to report that the new team in Lay & Wheeler have delivered a very pleasing turnaround with sales up 36.2%, and adjusted EBIT up five-fold to £0.9m. This has been a total cultural turnaround, summed up by the phrase the team came up with: "the 160-year-old start-up". We have a strong team in place and are set for future growth.



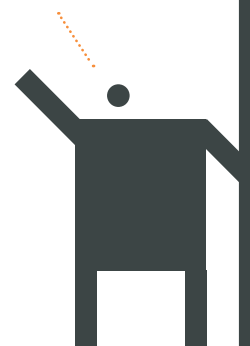
Our data driven business model



Majestic may look like an old-fashioned retailer but we are certainly not.

- ➔ 56% of our sales are multi-channel
- ➔ We now have £88m of sales from outside the UK, which grew at 52.7% in the year.
- ➔ We have two assets almost all old fashioned retailers don't have:
 - We know who our customers are and we've been analysing that data for almost 30 years. That data gives us the confidence to invest in growth, even when doing so goes against conventional "wisdom" (e.g. It pays to pay our staff more and we make more money by encouraging our customers to spend less.)
 - We were a multi-channel business long before that became a buzz word. Over a third of all of our sales are delivered

Our obsessive focus on customer loyalty is the engine that drives growth.



We can split our objectives into financial and operational. We have made good progress in each one of these but there is still much to do and there are still risks associated with each.

OBJECTIVES	WHY DOES THIS MATTER?	WHAT WE'VE ACHIEVED SO FAR	POTENTIAL RISKS (SEE PAGE 16)
FINANCIAL			
 £500m in sales by 2019	Growth attracts the best people and suppliers	£461.1m sales, up 11.4% this year	⚙ Competition ⚙ Regulation ⚙ Investment
 Profitability in line with market expectations	Because it allows us to reinvest to drive growth	51.0% growth in H2 adjusted EBIT. Tipping point of investment plan reached	⚙ Competition ⚙ Regulation ⚙ Investment
 75% return on our investment in Naked Wines	All investment needs to be disciplined	Average ROI for Naked Wines of 83%	⚙ Investment ⚙ Business interruption ⚙ Management team
 Net debt: EBITDA of 0.5x	Gives us the ability to invest in growth opportunities	Generated free cash flow of £6.2m, reduced finance charges by 20.6% year on year	⚙ Financial ⚙ Investment
OPERATIONAL			
 Improve team retention	Better people, who are better trained, motivated and empowered will give a better service than the supermarkets	Engagement of 70%, team retention stable at 74%	⚙ Investment ⚙ Management/key staff
 Improve availability	We can't sell what we don't have	Availability up to 82% on core range and 95% on promotional range	⚙ Capacity ⚙ Business interruption ⚙ Investment
 Improve wine quality	Wines with a higher approval sell more	Buy It Again ratings up at 91%	⚙ Regulation ⚙ Competition
 Improve customer retention	Customer retention rather than store openings will deliver a more sustainable business	Retention for customers buying six or more bottles remains stable Total customer retention stable at 68%	⚙ Competition ⚙ Brand recognition
 Improve 5* service	Customers who give us a 5* rating are 62% more valuable than customers who give a 4* rating	5* service up to 87%	⚙ Management team ⚙ Key staff

Key risks and uncertainties

During the year, the Board reviewed the effectiveness of the Group’s risk management and internal controls systems. This review included discussion and review of the risk registers across all business functions, facilitated by the Group Controls Manager.

The Executive Directors and Business Unit management are required to implement controls and processes and maintain their Business Unit risk registers. The full risk register has been reviewed to reflect the Group structure and strategy implemented in the last financial year. These risks below are classed as the highest risks, using likelihood and impact to assess an overall risk rating and prioritise mitigation actions.

These are not the only risks that may impact on the Group but they are the ones that we believe are the most significant at this time.

RISK Competition Threats range from the supermarkets, where wine can be used as a loss leader, to a range of more tailored online wine clubs. IMPACT ON STRATEGIC OBJECTIVES POTENTIAL IMPACTS - Persistent aggressive competitive activity could impact on our ability to grow and keep our customer base and/or our margin position MITIGATING ACTIVITIES - Our Buying teams continually monitor our competition’s activity - We are focused on delivering a better experience than our competitors, e.g. better value for money, better service, more engagement with winemakers POTENTIAL IMPACTS High Likelihood: High Impact: High CHANGE IN RISK → No change	RISK Regulation Sale of alcohol is strictly controlled in all our markets through licensing and regulation. The laws about management of customer data are changing. IMPACT ON STRATEGIC OBJECTIVES POTENTIAL IMPACTS - A change in regulation could impact on our cost structures or ability to operate. In particular, the USA has a complex set of regulations that vary by state - We may be restricted in our ability to communicate to our customers, impacting on retention and engagement MITIGATING ACTIVITIES - We promote awareness and best practice within our business and use third party legal advice where necessary - Regulatory developments are routinely monitored in all our markets to ensure that potential changes are identified, assessed and appropriate action is taken - We maintain up-to-date licences for all states, businesses and premises that we operate. We procure advice and support from licensing experts to help us maintain these - We endeavour to pay all taxes and duties on time and in full to all taxing and licensing authorities - We maintain all appropriate documentation as evidence of our compliance with licensing restrictions and regulations - We have appointed a data protection officer and are ensuring that we will be compliant in advance of the implementation of the new legislation POTENTIAL IMPACTS High Likelihood: Medium Impact: High CHANGE IN RISK → No change
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KEY

Sales

ROI

EBIT

Customer experience

Wine quality

Team retention

Cash generation

Product availability

That's the one I'm worried about!

RISK

Investment

The transformation plan involves significant investment in expectation of future returns, which may not materialise.

IMPACT ON STRATEGIC OBJECTIVES



POTENTIAL IMPACTS

- Investments could potentially not produce the desired return on investment and result in wasted cash

MITIGATING ACTIVITIES

- Investments are always monitored and capital redeployed if they are not producing the target ROI
- We are now halfway through our transformation plan and so focusing on less projects; however, there are a number of planned system upgrades to be undertaken this year which carry significant risk

POTENTIAL IMPACTS

Medium
Likelihood: **Medium**
Impact: **High**

CHANGE IN RISK



No change

Brexit may bring with it changes to laws and regulations which may affect our operations.

RISK

Systems development and stability

Our transformation plan requires us to upgrade or replace a number of core IT systems.

IMPACT ON STRATEGIC OBJECTIVES



POTENTIAL IMPACTS

- If either an existing system or an upgrade fails it could lead to significant costs and/or restriction in our ability to operate the business

MITIGATING ACTIVITIES

- We have an experienced and dedicated IT team, and use external consultants where we need to, but ensure we have a good balance of skills and experience in the team

POTENTIAL IMPACTS

Medium
Likelihood: **Medium**
Impact: **High**

CHANGE IN RISK



No change

RISK

Information and cyber security

IT systems are used to facilitate sales, supply planning, business management and for record keeping.

IMPACT ON STRATEGIC OBJECTIVES



POTENTIAL IMPACTS

- The threat of an unauthorised or malicious attack is an ongoing risk. Any attack could result in loss of data and/or a lack of customer confidence in the business, impacting on our trading
- Significant downtime as a result of a systems breach or failure would affect the ability to accept online customer orders and may affect customer loyalty. The loss of sensitive information relating to strategic direction or business performance may compromise our future strategies or the loss of data relating to individuals may result in an ICO complaint and negative publicity

MITIGATING ACTIVITIES

- IT systems, whether procured from third parties or built internally, are tested for security from attack. We also undertake periodic penetration testing exercises to provide ongoing assurance
- Critical systems are backed up regularly and/or hosted on third party data centres with appropriate backup/redundancy
- A dedicated systems security resource has been hired to provide assurance across the multiple businesses in the Group
- Disaster recovery plans are in place to ensure business can recover from any interruptions with minimal impact – the main trading websites and internal network is protected by a firewall with frequently updated anti-virus software

POTENTIAL IMPACTS

Medium
Likelihood: **Medium**
Impact: **High**

CHANGE IN RISK



No change

During the year we have recruited a security expert. However, the risk of cyber-crime is ever increasing and is a particular area of focus, particularly given that Naked Wines operates mainly online.

Key risks and uncertainties

continued

RISK

Management team/key staff

Our success depends on our ability to hold onto our senior management and our ability to attract, motivate and retain high-quality staff.

IMPACT ON STRATEGIC OBJECTIVES



POTENTIAL IMPACTS

- ➊ Turnover of key staff could lead to continued change in processes and strategy leading to poor execution

MITIGATING ACTIVITIES

- ➋ The Board reviews and benchmarks senior management compensation to ensure that it is competitive. Senior management have access to the PLC Board for any concerns

POTENTIAL IMPACTS

Medium
Likelihood: **Medium**
Impact: **Medium**

CHANGE IN RISK



No change

RISK

Business interruption

In the event of a physical impediment, our physical locations that are central to trading e.g. main offices, warehouses, could suffer significant interruption.

IMPACT ON STRATEGIC OBJECTIVES



POTENTIAL IMPACTS

- ➊ A disastrous event occurring at or around one or more of the Group's sites, may affect the ongoing performance of our operations and negatively impact on the Group's finances and our customers

MITIGATING ACTIVITIES

- ➋ Data is stored or backed up offsite. All critical systems can be accessed remotely in the event of physical access restrictions. There are "hotdesk" locations available on different sites in the event that nearby sites are inaccessible. Internal and third party warehousing either has multiple sites or is operated by a third party with access to backup capacity
- ➌ Majestic's business is supported by a qualified health and safety team – changes to the macro environment and legislation are monitored and implemented promptly

POTENTIAL IMPACTS

Medium
Likelihood: **Low**
Impact: **High**

CHANGE IN RISK



No change

RISK

Supply chain and production capacity

Capacity constraints or reduced wine production could limit growth potential.

IMPACT ON STRATEGIC OBJECTIVES



POTENTIAL IMPACTS

- ➊ Capacity constraints in our warehouses could cause issues in fulfilling stock and limit the business growth potential. Issues with our supply chain could impact on the customer experience, and natural disasters could limit production of wine across the world

MITIGATING ACTIVITIES

- ➋ A new third party warehouse was opened this year to manage a next day delivery service. Considerable improvement has been made in the supply chain, but this is a large, ongoing project

POTENTIAL IMPACTS

Low
Likelihood: **Medium**
Impact: **Low**

CHANGE IN RISK



Decreased

RISK

Third party supplier risks

We rely on a number of third parties to fulfil business critical tasks, e.g. delivery.

IMPACT ON STRATEGIC OBJECTIVES



POTENTIAL IMPACTS

- ➊ If a supplier's business fails, our ability to operate with our current cost structures could be impacted

MITIGATING ACTIVITIES

- ➋ Third party providers are selected on criteria including their capacity to handle growth

POTENTIAL IMPACTS

Low
Likelihood: **Medium**
Impact: **Low**

CHANGE IN RISK



No change

RISK

Financial, treasury and liquidity risks

The availability of funds to meet business needs, remaining within bank covenants, and the effect of fluctuations in foreign exchange rates and interest rates on the Group's financial position.

IMPACT ON STRATEGIC OBJECTIVES



POTENTIAL IMPACTS

- ➊ Access to financing impacts on our ability to operate and grow

MITIGATING ACTIVITIES

- ➋ We review the expected future cash needs of each business unit regularly to ensure availability of liquidity. We also periodically review our expected financial position against our banking covenants to ensure that our plans do not create risk of breach, including sensitivity to the risk of increased interest rates
- ➌ Transactional exchange rate risk is managed by sourcing from a variety of countries, and buying currency forward against our biggest exposures to achieve certainty of cost of purchased product. We do not undertake net asset hedging of our international operations

POTENTIAL IMPACTS

Low
Likelihood: **Low**
Impact: **High**

CHANGE IN RISK



No change

RISK

Brexit

Uncertain economic conditions may result in additional risk, particularly any large fluctuations in foreign exchange movements.

IMPACT ON STRATEGIC OBJECTIVES



POTENTIAL IMPACTS

- ➊ There are four main areas where Brexit could impact on the Group:
 1. The risk of a downturn in the UK economy. However, the potential impact of this is too early to foresee and historically the wine market has shown a good level of resilience.
 2. The impact of a sustained reduction in the value of sterling which, despite the Group's hedging strategies, will lead to an increase in the year on year cost of importing wine.
 3. Our ability to operate our stores in Calais that rely on personal importation of wine to the UK by the majority of our customers.
 4. Potential import tariffs which may affect the affordability of wine.

MITIGATING ACTIVITIES

- ➋ Our Finance department takes responsibility for reducing exposure to exchange rate risk through hedging our exposure to foreign currency. Foreign currency balances are monitored regularly, with margins frequently reviewed by the Executive Board so any required adjustments can be made quickly when required
- ➌ However, the retail environment will remain a level playing field, with a sustained fall in sterling affecting all importers equally. We are used to dealing in many currencies and inside many different trading structures. We will adapt to the new arrangements, whatever the outcomes
- ➍ While our two stores in France are at the biggest risk of changes to regulations due to Brexit, sales and profits are a relatively small component of the Group total and not expected to be a major source of future growth

POTENTIAL IMPACTS

Medium
Likelihood: **Medium**
Impact: **Medium**

CHANGE IN RISK



Increased

RISK

Damage to brand recognition

IMPACT ON STRATEGIC OBJECTIVES



POTENTIAL IMPACTS

- ➊ Damage to our brand or failing to achieve growing recognition would lead to a reduction in customer loyalty, a failure to attract new customers or suppliers, or, would affect existing relationships

MITIGATING ACTIVITIES

- ➋ There is a dedicated PR team in place to increase brand awareness and generate consumer interest
- ➌ Ongoing marketing campaigns are planned to raise brand awareness through different mediums
- ➍ Rigorous monitoring of customer feedback through quality processes
- ➎ Appointed a Group Public and Investor Relations Officer in 2016

POTENTIAL IMPACTS

Low
Likelihood: **Low**
Impact: **Medium**

CHANGE IN RISK



No change

Brand awareness has increased this year. We still need to be vigilant and protect the brand at all times.

Investment review

More than just accounting

Over the last 18 months we have invested over £8m of operating expense into the Majestic Retail business over and above inflation, as well as increasing the overhead base and marketing investment at Naked Wines. We remain agnostic as to whether the investments we undertake are operating or capital expense in nature, and we are constantly reviewing where we are getting payback. If the return is not sufficient we will be ruthless and reallocate budgets accordingly. During FY17 we have done exactly this, and it has had a significant impact on our outlook for the business.



The majority of our activity has been successful and we have generated record numbers of customers and sales revenues across the Group. The disappointing Naked Wines USA direct marketing investment and slower sales growth in Commercial were identified quickly and promptly, and it's been pleasing to see, for example, our US marketing investments delivering high returns during H2 as we flushed out underperforming spending.

We are committed to investing in the business to deliver growth and push the business forward. We have a record of quickly eliminating investment where we are not getting our expected return. We will return cash to our shareholders if deploying it within the Group does not maximise the return.

Alongside the ongoing review, towards the end of FY17 we presented to the Board a review of all investment in the business, whether embedded prior to the

transformation plan or part of it, and the results of this have strongly shaped our budgeting and planning for FY18. We have eliminated a significant amount of unproductive cost across the Group and across a mix of customer-facing and non-customer-facing activities. Some of this investment was generating sales of a low quality i.e. low or no margin and not generating a future stream of sustainable revenues due to the types of customers we were attracting. As a result of us removing the lower return investment, we expect our rate of sales growth to slow in FY18, and then pickup again in FY19, but strong profit growth to be achieved. With a clearer outlook for the business and having now passed the mid-point of the transformation in Retail, we are more confidently forecasting how costs and revenues will grow over the next 24 months, which gives us confidence in current market expectations for the year ahead.

INVESTMENT TYPE	FINDING	ACTION AND IMPLICATION
Naked Wines marketing to new customers	US direct mail campaign was disappointing. We have tested and optimised other campaigns across the UK, USA and Australia and are now able to focus on those which recruited the highest quality Angels.	• We have identified over £2.5m of the lowest-performing spend from the Naked Wines marketing budget as we go into FY18 and will be looking to redeploy it into new test campaigns • We have created new analytical tools that forecast long-term behaviour from early indicators and will use these to identify and eliminate bad campaigns even earlier going forwards
Naked Wines outbound sales team	We have been able to identify the best-performing outbound sales campaigns that drive the most long term value.	• Outbound sales campaigns are now more cost efficient and effective at servicing Angels, resulting in reduced cost growth in this area as the business grows
Majestic Retail store refits	Overall the refits are supporting higher sales growth and positive returns. Due to the early stage of the investment, performance is varied across the store base.	• We are currently identifying the characteristics of the best-performing stores and the impact of the workload reduction for our people. We are also looking to reflect this in more efficient staffing levels and scheduling
Majestic Retail additional store staff	Additional staffing over peak trading delivered improved KPIs.	• 5* service has increased 1ppt. We delivered a 6.2% Retail growth over Christmas whilst maintaining service levels • The next step is to validate that the service enhancements yield long term benefits
Majestic Retail National Fulfilment operations	We delivered incremental sales by offering next day fulfilment of a broader range of products. Costs were higher than planned. However, it is more efficient than store-based fulfilment and delivers a better customer experience, resulting in a positive return on investment.	• National Fulfilment operations work and we have seen strong demand from customers. We are reviewing the optimal mix of stock movement through the supply chain to balance the store cost base with the variable cost and customer experience benefits available through a National Fulfilment Centre. Our routing algorithm can be adjusted to change the mix of this routing depending on expected demand
Majestic Retail tasting events	Events are positive when new customers attending go on to become repeat customers.	• We are maintaining the tasting events across the country while assessing the lifecycle of the new customers acquired through this channel
Majestic Retail direct mail to existing customers	We have created a data warehouse to enable more personalised mailings to smaller groups of customers. Testing has now been completed to establish if promotional led communications were more effective than content led.	• We have reduced the breadth of mailing for certain campaigns, shifting emphasis from promotions to content driven communications • We are in the process of completely reviewing content for our customer communications early in their lifecycle, with the welcome campaign now 15% more effective
Majestic Commercial Business Development team	On a fully costed basis, we were not delivering attractive ROI from the new business being brought in by our Business Development team.	• We have re-engineered our customer terms to reflect the cost to serve them. We have reduced the level of Business Development resource and focused it more tightly to maintain service levels for existing customers, until we are ready to start investing to grow this division again
Lay & Wheeler Fine Wine Discovery Club	We are able to recruit customers for a subscription model at a cost that will be attractive if their lifecycle is similar to other Lay & Wheeler customers.	• Continuing to experiment with new recruitment approaches to identify lower-cost approaches while we validate the longer-term lifecycle of the customers. The Fine Wine Discovery Club has just passed its one-year anniversary and early signs are promising

Business review

Majestic Retail



MajesticWine

Our goal is to restore the Retail business to growth by:

- ➔ Getting the basics right
- ➔ Rebuilding the supply chain to deliver the right product in the right store at the right time
- ➔ Delivering a joined up IT and multi-channel proposition



We believe the only way Majestic can be one of the winners is by helping our customers discover wines they couldn't find for themselves. The only way we can do that is by having experienced and engaged staff. In the past two years Majestic has fundamentally changed the way we look after our people. We are a living wage employer, removed caps on bonuses and have offered free shares to everyone in the Company. We've also removed over 76,000 hours of unproductive, dull task time which allows our teams to spend more time with customers.

Repeat customer retention

68%
(FY16: 68%)

Product availability

82%
(FY16: 66%)

Team retention

74%
(FY16: 75%)

Wine quality
(Buy It Again ratings)

91%
(FY16: N/A)

Proportion of 5* service ratings

87%
(FY16: 86%)

Employee engagement

70%
(FY16: 70%)

Number of fully revamped stores

20
(FY16: 4)

Number of shelved stores

15

Year ended 3 April 2017

	Reported £'000	Impact of foreign exchange £'000	53rd week £'000	Underlying £'000
Revenue	262,200	–	(3,749)	258,451
Adjusted EBIT	13,345	–	(1,082)	12,263

Year ended 28 March 2016

Revenue	244,027	1,067	–	245,094
Adjusted EBIT	13,984	182	–	14,166

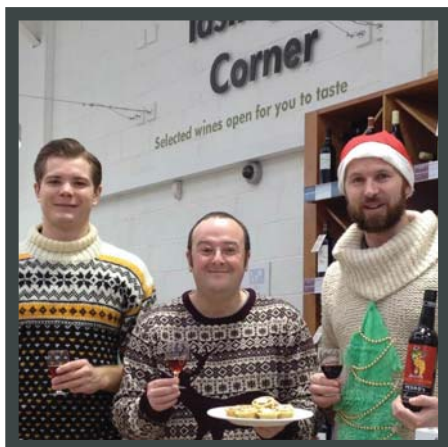
What have we delivered?

THE PLAN	OUR GOAL	WHAT WE SAID WE'D DO	WHAT WE'VE DONE	KPIs
Experience	To create customer loyalty and retention	Make shopping at Majestic simpler, easier and more fun	Stores We've revamped 20 stores and put shelving in an additional 15 stores. We've focused on making the shopping experience easier, e.g. simplifying the pricing structure. Online A new app and website will be launched this financial year. We are in the process of migrating all of Majestic's data onto a new in-house IT platform. A new Customer Happiness team has been created for all online orders. Data A new data warehouse has been created, enabling personalisation of communications with customers and measurement of which communications are most effective. Service We now measure all customer service reviews and are receiving over 2000 reviews per week. The reduction of store teams, workload has resulted in 76,000 hours of store team time reinvested in customer service.	5* service 87% - Repeat customer retention stable at 68% 20 fully revamped stores, and 15 shelved stores
Product	To have unique wines exclusive to us which give customers the best value, quality and choice	Listen to our customers to source more of what they love	Own brand Our own products are supporting margins and are now 4.7% of sales. Brands include: Majestic Loves, our new entry level range; Definition, where sales are up 96% in its second year; and the Majestic Parcel series range. Range We now have 194 different ranges in 210 stores. Introduction of WIGIGs (When It's Gone It's Gone) – going back to our roots with limited edition parcels of wine.	- Wine quality (Buy It Again ratings) 91% - Availability 82% - Own brand sales up to 4.7% of total sales
Making it easier	Let our people do what they are best at – helping customers	Simplify tasks in store to free up staff time to help customers	Launch of a National Fulfilment Centre Next day delivery service frees up store teams and provides a better customer experience. Availability Ensuring we have the right stock in the right place, tailored for local tastes. Simplifying tasks Shelving units are currently being rolled out across the estate. In-store web ordering has been set up to avoid stores running out of stock.	- Availability 82% 74% team retention
People	Better paid, more motivated and less hard worked store teams who spend more time with customers	Create an environment that attracts and retains great people	Benefits All employees are now eligible for share awards and we are now a Living wage employer. Visibility A total reward statement with sum of the parts is now given to almost all employees. Training Teaching store teams how to work in retail, not just knowledge of wine. A whole-Company engagement survey is conducted twice a year. Recruitment Fewer but better quality trainee managers, not just wine buffs.	74% team retention 70% employee engagement

In summary

1. We have more customers
2. We have better-looking stores and more motivated store teams
3. Those stores are supported better with appropriate processes and systems
4. Our IT and supply chain projects will allow us to grow, giving us the availability and agility we need to compete in a multi-channel world
5. Our investments are beginning to pay back

Majestic wine in action



The 10 weeks of Christmas account for 30% of Majestic's total sales. There is a huge pressure on store staff and the network to keep performing consistently. This year Majestic wanted to recognise the hard work that goes into delivering a Majestic Christmas and improve employee engagement and retention.

To do this we implemented different initiatives including Majestic scratch cards, free lunches and Christmas hampers to keep everyone going in the stores.

All Directors and Regional Managers were given scratch cards to award colleagues who

2016 was our biggest Christmas, EVER!

they saw going above and beyond. Each card had a message saying thank you for... and colleagues scratched for their prize, including a 9-litre Salmanazar bottle of wine, gift vouchers, and winning the use of a director's car for the week. In total 402 colleagues were awarded with scratch cards. This included 2,622 hours of time given back to our staff in time off after Christmas.

The result? A third of all colleagues were recognised for their efforts over the peak period. Majestic Retail achieved 6.2% growth for the 10 weeks over Christmas and Team retention stayed flat vs last year.



Let's Speak Wine

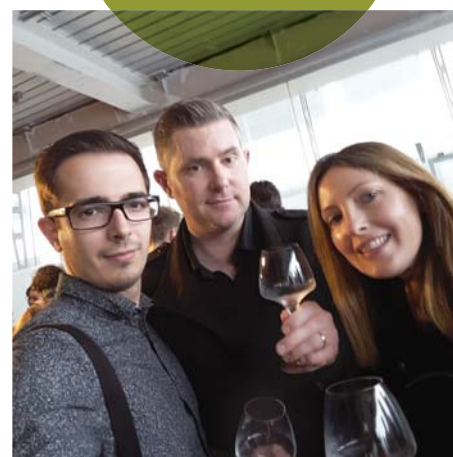
Throughout the first half of 2017, we ran two simultaneous streams of our regular email campaigns, testing different messages and different content across our customer base.

Traditionally, Majestic's communications to customers were based on promotions. The main focus of the test was to see if more engaging, 'less-salesy', richer content collateral could achieve a higher lifetime value of our customers who wanted to learn more about wine. In other words, does love or sales drive customer growth?

We also tyre-kicked the frequency of emails that we regularly send and rested customers if a campaign was not relevant to them.

We found that showing our customers love – through curated personalised content and talking to them only when it was relevant to them – made them far more valuable customers over their lifetimes.

Verdict: Love reigns supreme



What's the main reason you shop at Majestic?

I'm a big wine fan and love to explore new things. Majestic has some world-class wines, you only have to read the wine columns to see the number of recommendations. There are some real go-to wines that I will almost always stock up on when I'm there. I also love it when Majestic release 25 mature parcels at highly competitive prices. The staff in my store know me well so can always recommend me something new that I will like which makes it a really enjoyable place to visit.

What changes have you noticed in the past 18 months?

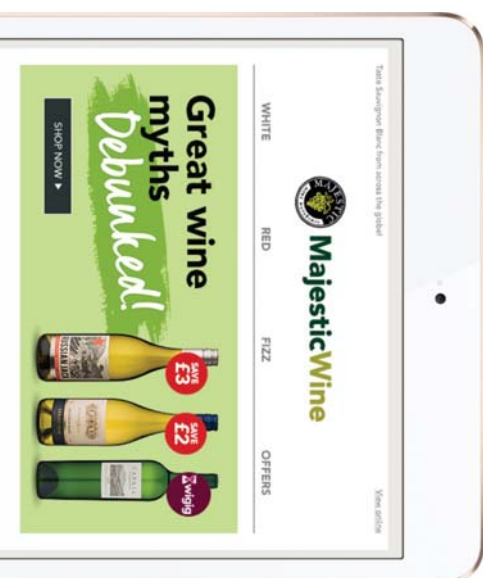
I think the move to single-bottle purchase is really smart. Also the more exclusive ranges make it much more exciting as it's offering something different to boring supermarket ranges. The stores are looking much neater and less dark than before too.

What do you think about the changes that have been made?

I'm all for it! Give the consumer choice, market it well and get them in! I really like the When It's Gone It's Gone (WIGIG) idea, and the staff seem happy with the changes too, which is important.

What other changes do you think should be made?

My store could do with some wooden shelving with clearer geographical markings which might help to navigate around a bit more easily and give it that slightly more shop feel. Otherwise the people are great, the range is getting loads better and the store is a much nicer place to be now so I'm a very happy customer!





Pass the Parcel Series

The Majestic Parcel Series was re-launched in 2016 and has recently had fantastic new additions from Marlborough, Tuscany and Mendoza among others. These wines offer the perfect combination of quality, exclusivity and price for our customers – and with 134,000 Parcel Series wine bottles sold over Christmas 2017 alone, they're clearly proving a huge hit.

Majestic customers love...

Spring 2017 saw us launch the Majestic Loves label to critical and popular acclaim. Priced at just £5.99, these wines were selected blind by our buyers from over 500 different samples. Wrapped in ingenious illustrations from noted artist Jean Jullien aimed at summing up "the feeling of the wine". The wines also came out top against entry-level wines from a range of our competitors at a series of public blind tastings.

Gin proves just the tonic

Our gin range is soaring. With over 115 new additions over the last year, sales up 108% and the spirit category now accounting for 5% of Majestic's total sales. Star performers have been Warner Edwards Rhubarb, the hugely popular Cotswolds Gin and Majestic's first spirit under Majestic's own Definition label – Definition Gin, which launched in November 2016.



Definition
[def-uh-nish-uh n]

Gin. A spirit of Dutch origin distilled for medicinal purposes with a cocktail of botanicals, it will always be juniper, a small gives rise to the distinctive flav

Business review

Naked Wines

nakedwines

It's been a year of
highs and big lows
in Naked. So here is
what we've achieved...

I have always wanted to create my own wines and the past 12 years has given me the training and experience to create a quality wine under my own name. I am delighted Naked have agreed to support me in this adventure. I can't wait to get started making this vintage and I hope all those that fund me will love these wines!

Dom Maxwell,
Independent Winemaker



Customer retention

67%
(FY16: 66%)

Product availability

85%

Team retention

64%

Wine quality
(Buy It Again rating)

90%
(FY16: 89%)

Proportion of 5* service ratings

89%
(FY16: 90%)

Net growth in Mature Angels

62,400

Return on investment on new Mature Angels

83%

Growth in Mature Angels

£4.8m

Year ended 3 April 2017

	Reported £'000	Pro-forma adjusted £'000	Impact of foreign exchange £'000	53rd week £'000	Underlying £'000
Revenue	144,341	–		(2,159)	142,182
Adjusted EBIT	1,417	–	–	(777)	640

Year ended 28 March 2016

Revenue	102,534	1,907	8,141	–	112,582
Adjusted EBIT	979	122	(15)	–	1,086

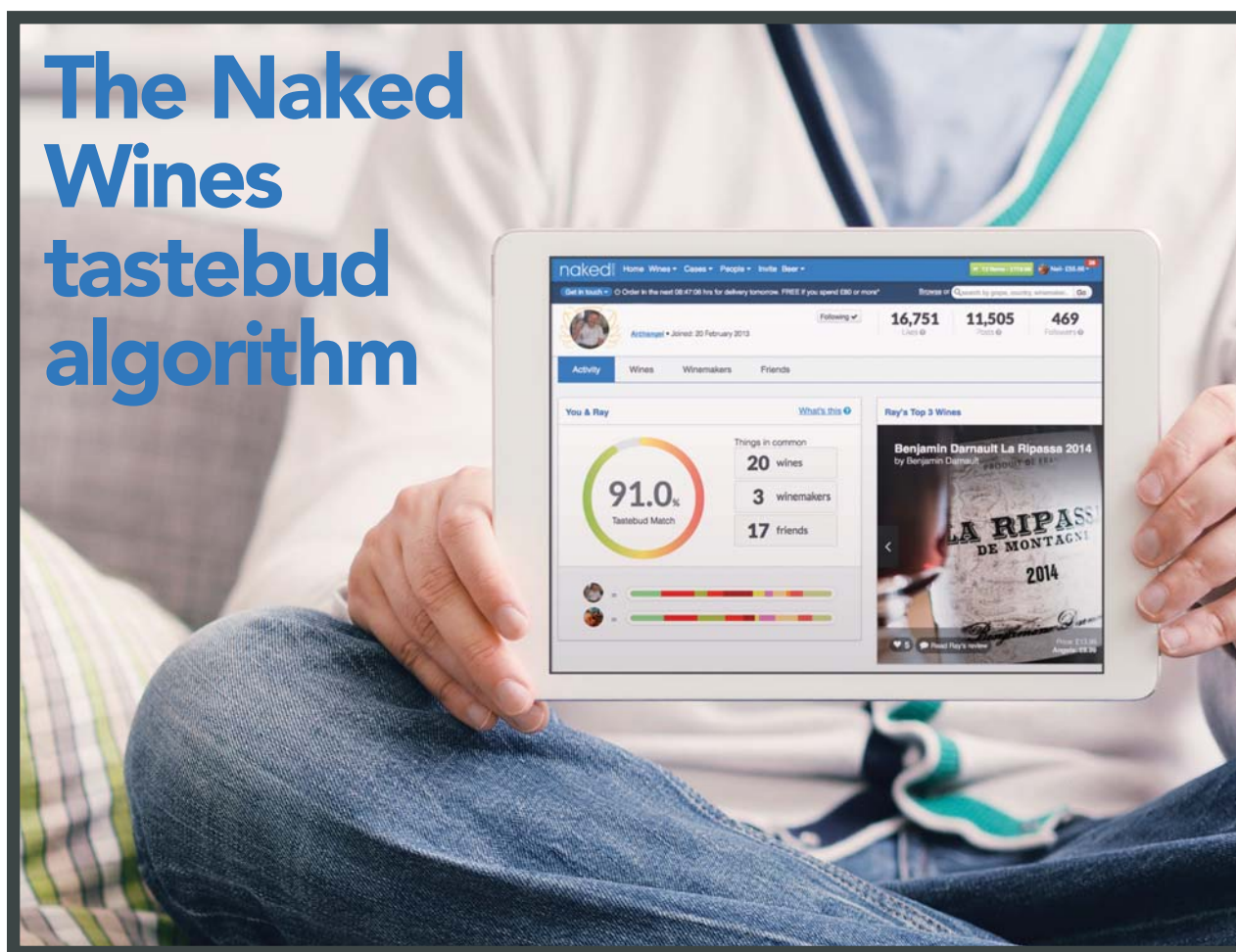
What have we delivered?

THE PLAN	OUR GOAL	WHAT WE SAID WE'D DO	WHAT WE'VE DONE	KPIs
Winemaker and customer acquisition	Attract some of the best winemakers in the world and build a loyal customer base	Acquire higher-quality Angels who have a higher lifetime value Encourage our best winemakers to become 100% Naked	Customer retention Retention has grown by 1pp this year. We are clearly seeing increased contribution and retention rates from Angels as they mature. Customer acquisition We are investing in improving customer retention by shifting from a high mass, high churn consumer model to recruiting higher-quality Angels with greater retention and lifetime values. In the USA we now have over 100,000 Angels. We have learnt from the failed direct mail test in the USA and how to roll out future tests. Partnerships remain our most profitable customer acquisition channel in all three markets. Winemaker retention Winemaker retention remains high. This year we have made technology improvements to improve our winemakers' experience; for example, the creation of a winemaker mobile app which is an easier way to connect Angels and winemakers across the world. Winemaker acquisition Naked's strategy is to spot the stars of the future and give them the break they need. Since Naked was launched in 2008 we've invested millions of pounds into wine production across the world and Angels have saved winemakers from ruin six times.	➤ 67% customer retention ➤ 62,400 net growth in Mature Angels ➤ Growth investment of £4.8m ➤ 159 winemakers ➤ 83% return on investment ➤ 363,400 Mature Angels
Improving service levels	To do what is right for our customers	Invest in technology to improve customer experience	Data and technology We now have over 6.9 million customer ratings across the world. To allow our Angels to find wines that they love we've invented a new Amazon/Netflix style algorithm which recommends wines based on past preferences. Empowering our teams Staff are rewarded for doing what is right rather than what costs the least – bonuses in our customer teams are driven by 5* customer ratings.	➤ 89% 5* service ➤ 64% team retention ➤ 64.6% net promoter score rating
Improving wine quality	To put more wine in the bottle	Use the Naked model to give more wine for the same money by cutting out the middleman	Buy It Again ratings Bringing customers and winemakers closer together through crowdfunding allows winemakers to improve their products through customer feedback. Buy It Again ratings have increased to 90% this year. Putting more wine in the bottle By funding talented winemakers to make wine exclusively for us, we can put more wine in the bottle AND deliver a lower price.	➤ 90% wine quality (Buy It Again ratings)

The result?

The best way to understand the potential of Naked Wines is to take the second half of this year and compare it with the previous year; sales are up 26.3% and ROI has recovered from the first half of FY2016/17 and ended at 83% for the year. We've achieved this despite a tough UK market, however all of our markets remain robust and our exposure to the USA and Australian markets gives us a greater level of confidence for the future.

Naked Wines in action



We tapped into our customer data to develop our own Recommendation Tool – a Netflix-style algorithm that offers dynamic, tailored recommendations based on customers' individual wine tastes.

Our Recommendation Tool crunches everything we know about a customer... what they buy, what they like, what they dislike and what others like them like (that's a lot of likes!).

Our algorithm then scores each wine on seven attributes (Type, Country, Style, Winemaker, Grape, Price, Alcohol%) and matches customers with wines tailored exactly to their personal tastes.

Customers can sort by 'Highest Recommendation' and watch the magic happen!

The Recommendation Tool doesn't just suggest Malbec for Malbec lovers or Sauvignon for Sauvignon lovers... it suggests wines with similar DNA, opening customers up to new varietals and styles.

We don't shy away from telling people about the wines that they aren't likely to enjoy either! Our site also tells them which wines they **SHOULDN'T** buy. We put a green tick next to every wine we think a customer will love, and a red cross next to those we think they should avoid.

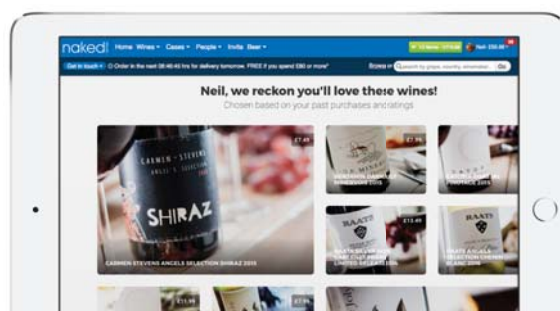
And because wine always tastes better when shared with others... we've added a social element. Our 'Tastebud Matcher' enables customers to find people with similar tastebuds to them.

Our Recommendation Tool has had a measurable impact on sales and loyalty...

Customers who choose a wine using the Recommendation Tool are six times more likely to add a wine to their basket, and seven times more likely to order.

Even better, customers who choose a wine using the Recommendation Tool enjoy their wines more... rating them 4.2 stars on average (vs 3.9 if they didn't use it).

Naked isn't just a wine shop, we're a community of wine lovers. Our Recommendation Tool has given our customers a way to discover delicious new wines that might not be on their radar, without the risks!





Why the Naked model works:

There is only
£1.80 of wine in
a £7.99 bottle
of wine!

The rest is made up of marketing, distribution, bottling, VAT and tax. That means that even a small investment in quality can make a big difference to taste.

By cutting out the middleman Naked can put more wine in the bottle and still give a better price than the supermarkets. Quality wines at a preferential price is what makes Naked Angels loyal, and customer loyalty is the magic sauce that makes the growth engine go around.

We know that improving quality makes us more money in the end as we can track the relationship between wine quality (we have nearly 7 million customer ratings) and customer retention. In other words, the higher an Angel's Buy It Again rating the higher their lifetime value. If Toblerone followed this example, they would be adding extra peaks to their chocolates!



English wine with a difference



British husband and wife winemaking team Charles and Ruth Simpson escaped the rat race 14 years ago. The pair left high-flying careers at GlaxoSmithKline and in the humanitarian sector to open their winery, Domaine Sainte Rose, in France's Languedoc region.

In 2014 they brought their dream back to the UK to their vineyard in Barham, near Canterbury, returning to their roots to make their first ever English sparkling wine. Their first harvest was in 2016, with the newly named wine to be ready in 2018.

Naked Wines raised £112,000 from the pre-sale of 1,200 six-packs of the Simpson's sparkling wine. The Angels who invested in the original crowdfunding chose the blend of the wine in early 2017 and in September will vote on the name.

Business review

Commercial



Wine Specialists  **Commercial**

What happened and what now?

Restructuring to unlock potential – the reorganisation of Majestic Commercial is now complete. The cost has come out, sales are steady, and we will see growth in 2019 when we have the systems to support it.

What have we delivered?

WHAT HAPPENED?

We ran out of steam and the organisational structure couldn't support the division's growth

The absence of the right processes and systems stalled growth

WHAT DID WE DO?

Created a new operational structure to focus manager time on bigger accounts and give the smaller ones to Majestic stores

Simplified our pricing to be more efficient depending on service needs

Created a new people structure that is self-sufficient and cost-efficient – Key Account Managers now report into Regional Managers, and are working together and incentivised in the same way

Focused on retaining our high-quality customers and staff instead of recruiting more

WHAT NEXT?

Systems updates won't be until 2018 – we have higher priorities right now

Accept lower growth until 2019 when we will be ready to accelerate the division again

Repeat customer retention

76%
(FY16: 80%)

Product availability

79%

Team retention

62%
(FY16: 81%)

Number of accounts

4,936
(FY16: 4,768)



The Definition Bar at Lord's

Majestic Commercial has been the preferred wine supplier to the hospitality and public bars at Lord's cricket ground for five years.

Each year the Commercial team work to increase the variation and value of wines available and support the smooth running of the matches.

This year Majestic Commercial decided to take their offering one step further and create Majestic's first ever "Definition" bar. The bar served 14 Majestic own brand Definition wines plus a selection of fine wines and Champagnes. The bar was manned by Majestic staff all equipped with the knowledge and charm to make sure all the spectators could find a wine that they would love while watching the game.

The Definition brand was Majestic's first-ever own-label range and was launched in Autumn 2015. The first own label spirit joined the range in November 2016. In the past year, Definition has grown sales by 96%. Launching this Summer we have a Chenin Blanc, Zinfandel, Albarino and Pinotage – taking the range up to 25 wines in total.

The Definition range scooped up 24 medals in this year's International Wine Challenge (IWC) and Decanter World Wine Awards. The Definition Chardonnay and Definition Rioja Reserva both won Gold medals at the IWC.

The bar is part of our wider partnership with Lord's. For every bottle sold the customer gets a voucher for a free bottle of that wine in any Majestic store.

Year ended 3 April 2017

	Reported £'000	53rd week £'000	Underlying £'000
Revenue	46,628	(695)	45,933
Adjusted EBIT	2,541	(147)	2,394

Year ended 28 March 2016

Revenue	45,557	–	45,557
Adjusted EBIT	3,770	–	3,770

Business review Lay & Wheeler

Our goal is to make Lay & Wheeler a profitable business again

Lay & Wheeler has a traditional customer base of fine wine collectors, which we will continue to love and nurture. However, the big discovery this year is that there is a market for fine wine for people relatively new to the subject, who want to discover it without being made to feel like idiots. The key part of our strategy is to be a friendly down to earth company, and using those qualities opens us up to a much bigger market.

The result?

- ➔ We delivered a more than fivefold increase in adjusted EBIT since last year
- ➔ There's a viable business here
- ➔ And one that can deliver margin

LAY & WHEELER
INTERNATIONAL WINE MERCHANTS SINCE 1854

What have we delivered?

WHAT HAS DRIVEN THE TURNAROUND?

Our people

We didn't need fine wine experts, we needed people that loved fine wine. We've got a great new team and have now recognised the stars who are now in proper roles.

What we've done

Traditionally, Lay & Wheeler's focus was on fine wine collectors, en primeur experts who bought a lot of fine wine as a hobby. What we have proven is that there is another market of everyday people who are discovering fine wine and want a friendlier, more down to earth service than the collectors. This fits exactly the type of company we are.

Culture

After many years of sliding sales, Lay & Wheeler had settled into a gloomy mindset, where decline was accepted as inevitable. The biggest impact of the new team was to reverse that, getting the team energised, excited and increasing their contribution to the Company while enhancing their career prospects at the same time.

KPIs

- Fine Wine Discovery Club is now one year old with encouraging initial results
- 28% of sales from en primeur (2016: 30%)
- First employee engagement survey produced very positive results



Wines to drink, not just to cellar

Lay & Wheeler has always been known for selling Bordeaux and Burgundy en primeur, when the wine prices are released but the wines themselves require more age.

They've been less known for offering parcels of fine wine which are ready to drink.

However, in the past year this is all changing, for the better. With the promotion of Robbie Toothill from Merchandising Manager to Buyer late last year, they've put someone in charge of buying who has direct experience of selling.

One of the key observations has been that customers aren't always buying to cellar their wine, but are also buying fine wine to drink now, and trust Lay & Wheeler for those recommendations.

So, Lay & Wheeler is doing exactly that.

Robbie has been on the road 11 weeks already, with at least nine more weeks planned this year, to seek out these parcels. Many are exclusive, and bought direct, with better margins and the opportunity to offer something special for customers.

For example, a special bottling of 'Rolled Stones' by South African producer Sjinn, ready to drink, was bought by more than four times more customers than any in its category. A Pinot Noir from an unlikely source, the Vallee d'Aosta in Italy, was our second best-selling wine for the entire country, out-selling famous names like Sassicaia and Ornellaia in both sales and volume.

The best part about this change is that Lay & Wheeler hasn't compromised its core business, while better serving both suppliers and customers.

Year ended 3 April 2017

	Reported £'000	En primeur £'000	53rd week £'000	Underlying £'000
Revenue	12,275	2,440	(194)	14,521
Adjusted EBIT	980	—	(34)	946

Year ended 28 March 2016

Revenue	9,968	690	—	10,658
Adjusted EBIT	152	—	—	152

Financial review

Overview of the year

Double digit sales growth has continued for the Group, 11.4% sales growth, 15.8% reported due to the translation impact of the weaker pound and the 53rd week. Naked Wines delivered 26.3% underlying and 40.8% reported growth. Commercial was broadly flat and Lay & Wheeler has delivered an outstanding 36.2% underlying and 23.1% reported growth following the changes made to that division.

For the full year, profitability has been a game very much of two halves. In H1 we recognised a significant level of additional cost as the second half of the £8m per annum transformation investment into the Majestic Retail business was built into the base, and we accelerated investment into Naked Wines by £5.8m across marketing and administrative functions. This resulted in the Group reporting just £700,000 of adjusted EBIT at our half-year results.

Note: Adjusted items:
As last year, we have focused on adjusted measures rather than statutory profits in this report. As I said last year, this is to focus on a measure that is more representative of the value accruing to our shareholders, rather than including various items – mainly costs – that the accounting standards require us to charge. Consistent with last year our adjustments include: amortisation of acquired intangibles, share based payment charges, a timing adjustment for en primeur sales and profits, one-off costs and gains, and the impact of revaluation of foreign exchange contracts.

Note: Financial values used in this commentary reflect the adjusted figures, as reconciled in the notes to the financial statements. As FY17 was a 53-week year, the commentary on this page focuses on the 52-week underlying trends as more representative of the underlying business performance. Any metric marked as “underlying” is a constant FX, 52-week comparator. Any other measurement is the reported difference. We have calculated that the 53rd week delivered £6.7m of sales and £2.0m of profit to the consolidated results.

Underlying	H1 FY17 £m	H1 FY16 £m	YoY %	H2 FY17 £m	H2 FY16 £m	YoY %	FY17 £m	FY16 £m	YoY %
Revenue	207.3	187.4	10.6%	253.8	226.4	12.1%	461.1	413.9	11.4%
Adjusted EBIT	0.7	9.3	-92.5%	11.4	7.5	51.0%	12.1	16.9	-28.4%

	Reported £'000	Pro-forma adjusted £'000	Impact of foreign exchange £'000	En primeur £'000	53rd week £'000	Underlying £'000
Year ended 3 April 2017						
Revenue	465.4	–	–	2.4	(6.7)	461.1
Adjusted EBIT	14.1	–	–	–	(2.0)	12.1
Adjusted PBT	12.9	–	–	–	(2.0)	10.9
Year ended 28 March 2016						
Revenue	402.1	1.9	9.2	0.7	–	413.9
Adjusted EBIT	16.6	0.1	0.1	0.1	–	16.9
Adjusted PBT	15.0	0.1	0.1	0.1	–	15.3

The real story of the year is told in H2, and I make no apologies for focusing on this as it is a better reflection of the Group's growth potential, with the comparative year having the costs of the Majestic transformation in the base. Adjusted to a comparable 26-week half, the Group's sales growth of 12.1%, flat gross margin and cost trend of 6.3% translated to 51.0% growth in adjusted EBIT in the half.

The result of this is a reported adjusted EBIT result for the year of £14.1m, £12.1m on an underlying basis and reported adjusted PBT of £12.9m, £10.9m on an underlying basis.

We have continued to incur non-trading charges that impact our statutory reported profit, totalling £14.3m in the year. The main components of these were amortisation of acquired intangibles and share based payment charges relating to the purchase of the Naked Wines business. We recognised £0.8m of one-off costs relating to restructuring within the Group.

During the year we incurred a lower finance charge at £1.2m, down from £1.5m in FY16 driven by a 25% reduction in the interest charge on our borrowings. During the year we redeemed £2.4m of our Naked Fine Wine Bond. This was a high interest instrument with interest payable either as cash or in wine. We have focused on redeeming the cash interest bonds, as the analysis tells us that those bondholders taking wine credit as interest order more than that funded by the interest, resulting in the higher interest rate actually being a net investment in loyalty.

Our effective tax rate of -83.4% is a function of the high level of disallowable costs which we include in our adjusted items e.g. share based payment charges and mark to market on foreign currency positions.

Adjusted effective tax rate (being the ratio of current income tax expense to Adjusted PBT) was 19.9% (2016: 27.6%). This reduction was due to (a) no store impairment charges impacting FY17 Adjusted PBT, (b) a foreign exchange credit of £0.3m in FY17 and (c) a reduction in the US effective rate due to brought forward losses being applied in FY17.

We have announced a final dividend of 3.6p per share, bringing the payout for the year to 5.1p in line with our stated policy of paying out 35% of earnings.

Outlook is to grow profits, even with lower rate of sales growth

We stated our ambition to deliver Group sales of £500m in 2019 when we launched our turnaround plan in 2015 and we still believe we'll get there. Having reached £461.1m in underlying revenue this year, and delivering an underlying growth rate of 11.4% it would be easy to say that it doesn't look stretching! However, as Rowan has said, the world we are operating in is very different today than it was when we set out on this journey.

Brexit was obviously the big news, and it has helped our top line as our US, Australian and French sales all translate to a higher revenue when we report them in pounds, adding £9.2m to our top line vs the FX environment a year ago. However, our biggest businesses are still in the UK and the situation today is one of weaker FX rates making the wine we sell more expensive to buy, and weakening consumer confidence after a short Brexit bounce. As a result of these factors, we are having to fight harder for every pound of revenue growth and every point of margin on our sales in the UK – which are circa 81% of Group sales.

Given this outlook, and the results of our investment review described previously, we have charted a slightly different course through the next couple of years.

On the sales line, we will deliver our revenue target through continuing to grow the customer base of our businesses, by driving loyalty and customer retention. With the worsening outlook for the UK economy we are preparing for the worst – a reduced growth rate in our UK businesses – while hoping for the best. Eliminating unproductive marketing across the Naked Wines group will further impact on the rate of sales growth near term, as we remove sales that were generating a one-time purchase but no sustainable repeat business. As a result, we expect the Group rate of sales growth to drop from double digit to low to mid-single digit next year, accelerating slightly thereafter.

Through elimination of unproductive and duplicated costs, we still anticipate achieving greater profitability despite our forecast for a tougher environment.

With this improved clarity on what investments we are sustaining and impact on revenues, we have stated that we remain comfortable with current market profit expectations.

Cash delivery in FY17 impacted by working capital movements, full year dividend 3.6p in line with policy

Free cash flow was £6.2m vs £13.8m in FY16. The significant reduction was driven by an £11.0m increase in our working capital balances as we built inventory and made payments at the end of March, which fell before the end of the 53-week financial year. Since year end we have paid down £9m of our revolving credit facility. We benefited from lower capital expenditure (CapEx) year on year as we opened no new stores and slowed our refit programme while we evaluated the early results of the programme such that our EBITDA less CapEx in the year was £17.5m vs £18.4m in the prior year. This reduction is lower than the fall in profits, reflecting the move from CapEx to OpEx in the Majestic transformation plan.

Our finance charges in the year reduced from £1.5m to £1.2m. During the year we paid down £2.4m of our more expensive debt, the Naked Wines Fine Wine Bond. We could have repaid all of this but left a proportion, which pays wine credits into its investors Angel accounts rather than cash interest, as we observe higher engagement and shopping rates from these customers, more than justifying the higher interest cost.

As an expression of our confidence that cash generation will continue, we have announced a final dividend for the year. Our dividend policy is to pay out 35% of adjusted earnings for the full year. The Board has declared a final dividend payment of 3.6p per share which gives a total dividend for the year of 5.1p per share. For the purpose of calculating the dividend we apply the current year tax charge to our adjusted PBT, as a proxy for the cash tax impact, and distribute 35% of the resulting amount across all shares that qualify for dividends. The net result of this is a payout of circa 29% of the adjusted EPS we have reported today as a result of that tax adjustment and the higher number of shares versus those used in the EPS calculation. The final dividend will be payable on 28 July 2017 to shareholders on the register at 23 June 2017. The ex-dividend date is 22 June 2017.

At year end we remain comfortably within our covenant positions as measured through our banking agreement definitions, with a net debt: EBITDA ratio of 1.1x vs a covenant maximum of 3x, and EBITDA: interest ratio of 21x vs a covenant minimum of 4x.

Central costs

Central costs increased substantially again year on year, from £2.3m to £4.2m. We indicated last year that we had built out our Group team, and we incurred a full year of costs for them in FY17. We spent £0.4m on various marketing innovation activities that were developed centrally, which will be rolled out by the trading businesses in future years. In addition, we incurred higher advisory costs as we increased the scope of our audit, required technical advice on a range of matters and appointed a joint broker. In FY18, we will centralise our IT resource within the Group functions resulting in a transfer of £2m of costs from the trading businesses to the Group team, and plan to run further marketing innovation projects centrally.

BUSINESS UNIT HIGHLIGHTS

Majestic Retail Restore

We have delivered a further 5.4% growth (5.7% like for like), as our strategy to retain customers and grow our customer base continues. Adjusted EBIT declined 13.4%, as the second half of our investment plan was established in the cost base, outweighing the margin on incremental sales.

Retail gross margins reduced by 0.7pp in the year. The majority of this movement was driven by the underlying trading margin as we maintained competitive pricing despite costs increasing as the pound weakened during the year. The margin reduction slowed significantly in H2, in particular in Q4 as pricing across the UK market moved up following the Christmas trading period.

Given the impact of our investment plan in the first half of the year, it's worth reviewing the second half in isolation to get a better feel for the current business trajectory. In H2, sales growth of 5.8% delivered EBIT growth of 28.4% despite us putting additional investment into our national fulfilment operation, which created additional expense of circa £1.6m. With ongoing cost control measures and elimination of investments that are not delivering high returns, we plan on delivering continued profit growth in Retail from a lower level of sales growth, despite the well-documented pressures of business rate reviews, the apprentice levy and inflation in the living wage.

Commercial Unlock potential

Majestic Commercial underlying sales grew by 0.8% in FY17, a significantly reduced rate of growth vs prior years. This reflects the challenges we have had in the business, announced in September 2016. Sales growth has stalled due to a combination of fewer new accounts and worse performance of the existing customer base (retention down by 4pps). This result is despite investment into the sales team that should have supported continued growth.

As a result of these flat sales, weaker gross margins and the sales and investment into management, profits declined by £1.2m.

As we have reviewed the strategy for Commercial during the year, we have moved from a position of investing in growing the business to reducing the level of staffing focused on developing the account base, purely focusing on maintaining our current customers. During H2 we eliminated circa £0.4m per year of annual cost from the business. We do expect this to result in a sustained flat sales trajectory in the next year, with the cost reduction protecting profitability. Costs of achieving this were accounted as one-offs.

Naked Wines More focused investment

Profitability at Naked Wines decreased £0.5m in the year, while reported adjusted EBIT increased by 44.9% to £1.4m. Profits could have been much higher but we increased our rate of investment in new Angels year on year by £3.1m, a portion of which was badly spent on a failed Direct Mail campaign that will not be repeated. Our Mature Angels delivered £4.4m more contribution because there were more of them, and £0.4m less as we made lower contribution out of each of them, with overhead growth of £1.3m in the year, adjusted EBIT moved back by £0.5m. We close the year with 363,000 Mature Angels, an increase of 21% versus FY16 which will put us in a position ready to continue to grow sales in FY18, despite the planned reduction in marketing activities that our evaluation has indicated to not add to our customer base long term.

Looking at H2 only, Naked Wines adjusted EBIT increased more than six fold with 70% of this growth coming from more Angels, each contributing more. The remainder was the impact of marketing spend being phased into H1 and starting the process of eliminating those campaigns that we have identified as underperforming based on the long-term customer behaviour.

With the current customer base and the cost base in the last year, we calculate a "standstill EBITDA" (earnings before interest, tax, depreciation and amortisation) – the profit we would make if we stopped investing in growth – of £9m. The aggregate return on our investment in new customers in the year was 83%, which resulted in the first tranche of conditional consideration from the acquisition being payable. Shares were issued after the year end balance sheet to settle this obligation.

Lay & Wheeler Establish new model

Lay & Wheeler's performance this year has been very impressive. Sales have grown by 36.2%, translating to gross profit growth of 27.2% due to FX driven cost pressures and mix shift into some lower margin lines. Irrespective of this, underlying EBIT grew to £0.9m as the growth was driven by a more efficient team resulting in lower operating costs year on year. Costs of reorganising the Lay & Wheeler team were accounted as one-offs.

Financial review

continued

ITEM	HIGHLIGHTS/COMMENTS
Sales £465.4m reported, +15.8% £461.1m underlying, +11.4%	➤ Retail: Like for like of +5.7% represents the eighth quarter of like for like sales growth. Underlying sales grew 5.4% to £258.5m ➤ Naked Wines: Growth of +26.3% was driven by the USA +28.9%, Australia +55.6% and UK +20.7%. Sales growth came from both Mature Angels and new customers ➤ Commercial: Slowed to 0.8% to £45.9m ➤ Lay & Wheeler: Posted +36.2% sales growth to £14.5m reflecting the success of their turnaround plan
Gross margin 26.0%, -0.5pps	➤ Group gross margin % fell by 0.5pps ➤ Majestic Retail gross margin fell by 0.7pps and Naked Wines by 1.3pps, reflecting higher input prices due to Brexit and additional store staffing ➤ Retail gross margin stabilised in H2
Operating costs	➤ The second half of the £8m transformation cost was recognised in H1. In addition, we accelerated investment into Naked Wines by £4.1m across marketing and administrative functions ➤ For FY18 a significant amount of unproductive cost across the group will naturally fall out, across a mix of customer-facing and non-customer-facing activities, reflecting the halfway stage of the transformation plan
Adjusted EBIT £14.1m reported, -14.9% £12.1m underlying, -28.4%	➤ Retail Adjusted EBIT of £12.3m (-13.4%) impacted by investment plans as previously indicated ➤ Naked Wines Adjusted EBIT of £0.6m, down 41.0%, as a result of increased marketing and admin investment ➤ Commercial Adjusted EBIT of £2.4m is 36.5% lower as the business faced significant challenges in the year ➤ Lay & Wheeler profit was over five times higher at £0.9m as a result of the turnaround plan ➤ Central/unallocated costs were 80.0% higher as we built out the Group functions ➤ During H2, as the comparable period had the transformation cost in it, adjusted EBIT was 51.0% higher as revenue growth translated into profit growth
Adjusted items (£14.3m) +38.8%	➤ Amortisation of acquired intangibles (£4.3m) ➤ Acquisition-related share based payment charges (£6.9m) ➤ En primeur impact (£0.5m) ➤ Restructuring costs (£0.8m) ➤ Transaction costs (£0.1m) ➤ Fair value movement on FX contracts (£1.0m) ➤ Share based payment charges (£0.7m) In the prior year we wrote off goodwill associated with Lay & Wheeler (£2.6m), and recognised an exceptional gain of £4.8m on disposal of a property. These two items, the (£1.0m) fair value on FX contracts (FY16 = £0.8m gain) and the share based payment charge of (£0.7m) (FY16 = (£0.2m)) account for the majority of the movement in the adjusted items.
Finance charges £1.2m reported, -20.6%	➤ Finance charges reduced by 20.6% in the period. We paid down £2.4m of the Naked Fine Wine Bond during the year, our highest cost borrowing
Statutory PBT £(1.5)m FY16 = £4.7m	➤ Statutory loss vs adjusted profit is heavily impacted by the charges relating to the Naked Wines acquisition ➤ Per commentary on adjusted items, a one-off property gain and positive fair value adjustment to FX contracts in FY16 resulted in statutory PBT being materially lower this year
Taxation £(1.2)m -83.4%	➤ Effective tax rate of -85% a function of the high level of disallowable costs which we include in our adjusted items e.g. share payment charges, mark to market on foreign currency positions ➤ Adjusted effective tax rate (being the ratio of current income tax expense to Adjusted PBT) was 19.9% (2016: 27.6%). This reduction was due to (a) no store impairment charges impacting FY17 Adjusted PBT, (b) a foreign exchange credit of £0.3m in FY17 and (c) a reduction in the US effective rate due to brought forward losses being applied in FY17
Shares outstanding	Shares issued at year end of 70.8m ➤ Of these, 4.9m are subject to clawback if the performance conditions relating to the Naked Wines acquisition are not achieved. Clawback restrictions were released on 1.9m post year end as the first Naked Wines vesting point was successfully achieved ➤ A further 1.5m are due to be issued if the Naked Wines performance standard is achieved. Of these, 434,000 were issued post year end as the first Naked Wines vesting point was successfully achieved ➤ A further 2.9m options are outstanding through historic employee share schemes ➤ Weighted average shares in issue of 71.4m ➤ If all the Company and acquisition-related share schemes fully vested we would have 75m shares in issue

ITEM	HIGHLIGHTS/COMMENTS
Earnings per share (4.1)p basic (-217.1%) 17.7p adjusted (-7.7%)	On an adjusted basis our EPS reduced 7.7% as a function of the lower adjusted profitability of the business
Dividend 3.6p per share, Total dividend of 5.1p	The dividend was reinstated this year, the policy stands at circa 35% of adjusted earnings, with the policy permitting special dividends if excess cash is available based on foreseeable investment opportunities
Free cash flow £6.2m (-55.1%)	- Free cash flow totalled £6.2m, down from £13.8m in the prior year, reflecting: - A higher level of net working capital across stock, payables and receivables - Offset by increases in Naked Wines Angel funds - As the year end fell in April, rather than March, we incurred an additional month-end set of payments in the financial year - In the first two months of FY18, we reduced the draw down on our revolving credit facility by £9m
Fixed assets	- Group capital expenditure was circa £3.5m, invested predominantly in the Retail estate - Approximately £1.2m of this was spent on store revamps and shelving
Working capital	- Investment of £5.5m into Naked Wines inventory in the year to support range and availability. This was more than offset by a £8.0m increase in the balance of Angel funds we hold on account. Note that FX translation on working capital balances resulted in a net movement of £1.6m - Majestic Retail and Commercial significantly increased working capital by £16.8m: - Inventory accounted for £3.1m of this as we focused on availability and stocked our National Fulfilment Centre - Receivables and prepayments increased, and accounts payable decreased, as we closed the year in early April vs late March resulting in an additional month end payment run and certain annual prepayments, e.g. insurance, having been billed
Net debt £25.7m	The Group continues to carry modest cash leverage as a result of the Naked Wines acquisition. We closed the year with net debt of £25.7m, a flat balance year on year impacted by the working capital position described above. Note this is fully secured by our freehold property portfolio
Lease adjusted net debt £106.8m	We also review net debt with the addition of our leases, capitalised at the value of our net lease commitments as this demonstrates the significant liability that our property commitments represent. This results in calculated lease adjusted net debt of 3.4x EBITDAR (earnings before interest, tax, depreciation, amortisation and rent)
Bank covenants and facilities	- We remain comfortably within our facility covenants with net debt / EBITDA (as measured by facility agreement) of 1.1x and interest / EBITDA of 20.7x. These metrics represent slightly higher gearing year on year due to: - The lower profitability of the group, and - The exclusion of the Naked Fine Wine Bond debt from the calculations, which we paid down during the year from utilising our revolving credit facility, which is included in the calculation - Our main facility provided by Barclays and HSBC is committed until April 2020
Hedging policy	The Group's hedging policy is to build currency positions gradually between nine and three months prior to the date of expected liabilities coming due. At year end this resulted in us holding £60.1m of forward contracts. The significant step-up in balances held is a result of the policy being implemented during FY16 and the prior year end not reflecting a fully developed position
Naked Wines contingent consideration	We are continuing to expense the contingent shares on the basis that performance targets are achieved and the shares will be issued/have their clawback provisions lifted. The first tranche of shares were vested shortly after the end of the financial year
Going concern	Our forecasts for the business support our investment plans while deleveraging and paying a dividend. As such we have prepared the accounts on a going concern basis. This is further discussed in the notes to the accounts

Leadership

The Board

Phil Wrigley,
Non-Executive
Director and Chairman
(until 9 August 2017)
(64)

Appointment date:
April 2010

Experience:
Director at New Look Group, Bhs, Dorothy Perkins and Debenhams.
Held roles in: Buying and Merchandising, Logistics, Retail Operations, Marketing and Finance.

Founder of Madison Capital aimed at investing and supporting emerging companies with significant opportunities to grow and create value.

External appointments:
– Chairman of LXB Retail Properties PLC
– Chairman of Hobbs

Skills brought to the Board:
Significant retail experience

Number of Board meetings attended:
7 out of 7

Sector experience:
Retail

Brian ("Greg") Hodder
Non-Executive Director
and Chairman-Designate
(64)

Appointment date:
October 2015

Experience:
Chief Executive of Charles Tyrwhitt for nine years. Chief Executive Officer of Direct Wines for 14 years. He has also formerly held senior positions at Smallbone USA.

External appointments:
Non-Executive Director at Hotel Chocolat.

Skills brought to the Board:
Retail and wine sector experience, focus on multi-channel and ecommerce delivery.

Number of Board meetings attended:
7 out of 7

Sector experience:
Retail

Rowan Gormley,
Chief Executive Officer
(55)

Appointment date:
April 2015

Experience:
Co-founded Virgin Money, The Virgin One Account, Virgin Wines and Naked Wines.
Qualified as a chartered accountant and spent seven years at Electra Investment Management.

External appointments:
None.

Skills brought to the Board:
Founder of Naked Wines.

Number of Board meetings attended:
7 out of 7

Sector experience:
Direct marketing

James Crawford,
Group Chief
Financial Officer and
Company Secretary
(40)

Appointment date:
August 2015

Experience:
Joined Naked Wines as Finance Director in March 2014 following a 13-year career with Diageo PLC, a global leader in beers, spirits and wine, where he held several senior finance, strategy and business development roles in the UK and North America.

External appointments:
None.

Skills brought to the Board:
Financial skills, industry knowledge and international experience.

Number of Board meetings attended:
7 out of 7

Sector experience:
Finance and legislation



Justin Apthorp, Non-Executive Director (55)

Appointment date:

January 2006
(Non-Executive as of January 2016)

Experience:

Spent 25 years with Majestic, with the last 10 years as Buying Director, before retiring from his executive role at the end of 2015. Previously he worked in marketing and brand development for Bejam and Lyons Tetley.

External appointments:

Governor of Berkhamsted School since 2005.

Skills brought to the Board:

Knowledge of buying and Majestic Wine.

Number of Board meetings attended:

7 out of 7

Sector experience:

The wine industry

Ian Harding, Non-Executive Director and Senior Independent Director (52)

Appointment date:

June 2013

Experience:

Spent 19 years with Kingfisher PLC, in various senior roles including 11 years as Group Communications Director, previously spent eight years at PwC and is a fellow of the institute of Chartered Accountants in England and Wales.

Committees:

Chair of Audit Committee.

External appointments:

None.

Skills brought to the Board:

Finance, communications, Investor and Media relations expertise.

Number of Board meetings attended:

7 out of 7

Sector experience:

Finance and retail

Anita Balchandani, Non-Executive Director (43)

Appointment date:

June 2015

Experience:

Holds an MSc in management from the London School of Economics, held roles at Shop Direct and Asda Walmart.

Committees:

Chair of Remuneration Committee.

External appointments:

- Partner and Sector Head of UK Retail for OC&C Strategy Consultants.
- NED of Space NK Apothecary.

Skills brought to the Board:

Strategic business expertise.

Number of Board meetings attended:

7 out of 7

Sector experience:

Consumer



Leadership

Board composition

The Board comprises the Non-Executive Chairman, two Executive Directors and five Non-Executive Directors. There were no changes to the Board in the financial year to 3 April 2017.

The Board is satisfied that, between the Directors, it has an effective and appropriate balance of skills and experience, including in the areas of retailing, wine, finance, innovation, international trading, ecommerce and marketing. The Board considers, after careful review, that the Non-Executive Directors bring an independent judgement to bear. Justin Apthorp has been classified as non-independent due to his time working with the Company and current shareholding.

The Board is satisfied that it has a suitable balance between independence on the one hand, and knowledge of the Company on the other, to enable it to discharge its duties and responsibilities effectively. All Directors are encouraged to use their independent judgement and to challenge all matters, whether strategic or operational.

Contracts are available for inspection at the Company's registered office and at the Annual General Meeting (AGM). All Directors retire by rotation at regular intervals in accordance with the Company's Articles of Association and the principles of the Code.

The Directors who served during the year and their interests in the ordinary share capital of the Company were:

	Number of ordinary shares	
	2017	2016
Phil Wrigley	20,000	20,000
Rowan Gormley (see note)	4,528,881	4,528,881
James Crawford	14,000	9,000
Anita Balchandani	–	–
Brian Gregory Hodder	10,000	10,000
Ian Harding	12,000	10,000
Justin Apthorp	300,000	300,000

Note:

At the year end of the financial year, all of Rowan Gormley's total above shareholding was contingently returnable. In addition to the initial cash payment made at the time of the acquisition, further amount of up to £20m in ordinary share capital was issued to management in the form of contingently returnable shares and contingent awards. Due to continuing employment obligations of the recipients of these shares IFRS 2 Share Based Payment treatment has been applied to this element of the consideration and the amounts are being recorded in the Group income statement over the next four years. On 26 April 2017, the award of, and removal of trading restrictions on the first tranche of the incentivisation shares were awarded to members of the Naked Wines management team, in line with the timings outlined at the time of the acquisition.

Board changes this year

On the 15 June it was announced that Phil Wrigley has decided to retire from the Board. Greg Hodder has been appointed Chairman-Designate, formally taking over as Chairman at the conclusion of the AGM. Ian Harding has also been appointed Senior Independent Director.

Board Committees

The Board is supported by the Audit, Remuneration and Nomination Committees.

Each Committee has access to such resources, information and advice as it deems necessary, at the cost of the Company, to enable the Committee to discharge its duties. The terms of reference of each Committee are available at www.majesticwineplc.co.uk.

A detailed report of the composition, responsibilities and key activities for the Audit Committee are set out on pages 46 to 47 and for the Remuneration Committee on pages 42 to 45.

The Nomination Committee comprises not less than three members, the majority of which are independent Non-Executive Directors. The Committee is chaired by the Chairman unless the matter under discussion is their own succession. Other directors are invited to attend as appropriate and only if they do not have a conflict of interest. The Committee is also assisted by executive search consultants as and when required.

The Committee's principal responsibility is to lead the process for Board appointments and to make recommendations for maintaining an appropriate balance of skills on the Board.

The Committee met three times during the year to consider Chairman succession, the appointment of a Senior Independent Director and the appointment of a new Non-Executive Director. It is anticipated that the Committee will meet just once next year with the main topic being general succession planning for key senior executives.

Appointment, removal and re-election of Directors

The Board makes decisions regarding the appointment and removal of Directors, and there is a formal, rigorous and transparent procedure for appointments. The Company's Articles of Association require that one-third of the Directors must stand for re-election by shareholders annually in rotation; that all Directors must stand for re-election at least once every three years; and that any new Directors appointed during the year must stand for election at the AGM immediately following their appointment.

On 15 June it was announced that Phil Wrigley has decided to retire from the Board. Greg Hodder has been appointed Chairman-Designate, formally taking over as Chairman at the conclusion of the AGM. Ian Harding has also been appointed Senior Independent Director. Anita Balchandani, Ian Harding and James Crawford will retire by rotation this year, and, being eligible, offer themselves for re-election.

All Directors undergo a performance evaluation with the Chairman, before being proposed for re-election, to ensure that their performance continues to be effective, that where appropriate they maintain their independence and that they are demonstrating continued commitment to the role.

The Group has provided to all of its Directors limited indemnities in respect of costs of defending claims against them and third party liabilities. The Group has made qualifying third party indemnity provisions for the benefit of its Directors which were available during the period and remain in force at the date of this report.

Roles of the Board, Chairman and Chief Executive Officer

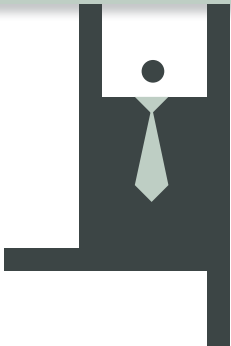
The Board is responsible for the long-term success of the Company. There is a formal schedule of matters reserved to the Board. It is responsible for overall Group strategy; approval of major investments (whether CapEx or OpEx); approval of the annual and interim results; annual budgets; dividend policy; and Board structure. It monitors the exposure to key business risks and reviews the strategic direction of all trading subsidiaries, their annual budgets and their performance in relation to those budgets.

All Directors receive regular and timely information on the Group’s operational and financial performance. Relevant information is circulated to the Directors in advance of meetings. The business reports monthly on its headline performance against its agreed budget, and the Board reviews the monthly update on performance and any significant variances are reviewed at each meeting.

Senior executives below Board level attend Board meetings where appropriate to present business updates. Board meetings throughout the year are held at the Company’s various offices giving, in particular the Non-Executive Directors, access to the different divisions to gain a greater understanding of the Group’s activities.

Effectiveness

Key PLC Board activities during the year	
Input into the transformation plan for the Group	✓
Continued an open dialogue with the investment community	✓
Considered our financial and non-financial policies, including the introduction of the Modern Slavery Act 2015 and our commitments to prevent Modern Slavery	✓
Discussed strategic priorities	✓
Discussed the Group’s capital structure and financial strategy, including capital investments, shareholder returns and the dividend policy	✓
Reviewed the development of the next day delivery service and launch of the National Fulfilment Centre	✓
Reviewed international strategy in the USA	✓
Discussed internal governance processes	✓
Reviewed and approved Group risk register	✓
Discussed employee engagement and pay	✓
Reviewed feedback from shareholders post full and half-year results	✓
Review of investment performance	✓



..... I love a list

There is a clear division of responsibility at the head of the Company. The Chairman is responsible for running the business of the Board and for ensuring appropriate strategic focus and direction. The Chief Executive Officer is responsible for proposing the strategic focus to the Board, implementing it once it has been approved and overseeing the management of the Company through the Executive Board.

Board programme

The Board meets at least six times each year in accordance with its scheduled meeting calendar and the attendance by each Board member at scheduled meetings is shown in the Board table on pages 36 and 37.

The Board manages the Company through a formal schedule of matters reserved for its decision. Prior to the start of each financial year, a schedule of dates for that year’s six Board meetings is compiled to align as far as reasonably practicable with the Company’s financial calendar on the one hand, and its trading calendar on the other, while also ensuring an appropriate spread of meetings across the financial year. This may be supplemented by additional meetings as and when required.

During the year to 3 April 2017, the Board met for its six scheduled meetings. The Board and its Committees receive appropriate and timely information prior to each meeting; a formal agenda is produced for each meeting, and Board and Committee papers are distributed several days before meetings take place. Any Director may challenge Company proposals, and decisions are taken democratically after discussion. Any Director who feels that any concern remains unresolved after discussion may ask for that concern to be noted in the minutes of the meeting, which are then circulated to all Directors. Any specific actions arising from such meetings are agreed by the Board or relevant Committee and then followed up by the Company’s management.

Board performance

The performance of the Board is fundamental to the Company’s success. The performance of the Board and its Committees, including individual members, is evaluated regularly by the Chairman, with the aim of improving their effectiveness.

Independent advice

All Directors are able to take independent professional advice in the furtherance of their duties, if necessary, at the Company’s expense. In addition, the Directors have direct access to the advice and services of the Company Secretary and Chief Financial Officer.

Directors’ conflict of interest

The Company has effective procedures in place to monitor and deal with conflicts of interest. The Board is aware of the other commitments and interests of its Directors, and changes to these commitments and interests are reported to and, where appropriate, agreed with the rest of the Board.

Executive team

The Executive team consists of Rowan Gormley and James Crawford with input from the divisional directors and teams. They are responsible for formulation of the proposed strategic focus for submission to the Board, the day-to-day management of the Group’s businesses and its overall trading, operational and financial performance in fulfilment of that strategy, as well as plans and budgets approved by the Board of Directors. It also manages and oversees key risks, management development and corporate responsibility programmes. The Chief Executive Officer reports to the PLC Board on issues, progress and recommendations for change. The controls applied by the Executive team to financial and non-financial matters are set out below, and the effectiveness of these controls are regularly reported to the Audit Committee and the Board.

Accountability

Financial controls

The Company has an established framework of internal financial controls, the effectiveness of which is regularly reviewed by the Executive Board, the Audit Committee and the Board in light of an ongoing assessment of significant risks facing the Company.

- ➊ As outlined in this Corporate governance report, the Board is responsible for reviewing and approving overall Company strategy, approving revenue and capital budgets and plans, and for determining the financial structure of the Company including treasury, tax and dividend policy. Monthly results and variances from plans and forecasts are reported to the Board.
- ➋ The Audit Committee assists the Board in discharging its duties regarding the financial statements, accounting policies and the maintenance of proper internal business, and operational and financial controls, including the review of results of work performed by the Group controls function.
- ➌ There are comprehensive procedures for budgeting and planning, for monitoring and reporting to the Board business performance against those budgets and plans, and for forecasting expected performance over the remainder of the financial period. These cover profits, cash flows, capital expenditure and balance sheets. Monthly results are reported against budget and compared with the prior year, and forecasts for the current financial year are regularly revised in light of actual performance.
- ➍ The Company has a consistent system of prior appraisal for investments, overseen by the Chief Financial Officer and Chief Executive Officer, with defined financial controls and procedures with which each business area is required to comply in order to be granted investment funds for development. Regular post-investment reviews are also carried out to check the return on investment that has been delivered.

Non-financial controls

The Board has ultimate responsibility for the Group's system of internal control and for reviewing its effectiveness. However, any such system of internal control can provide only reasonable, but not absolute, assurance against material misstatement or loss. The Board considers that the internal controls in place are appropriate for the size, complexity and risk profile of the Group. The principal elements of the Group's internal control system include:

- ➊ Close management of the day-to-day activities of the Group by the Executive Directors;
- ➋ An organisational structure with defined levels of responsibility, which promotes entrepreneurial decision making and rapid implementation while minimising risk
- ➌ A comprehensive annual budgeting process producing a detailed integrated profit and loss, balance sheet and cash flow, which is approved by the Board
- ➍ Detailed monthly reporting of performance against budget, and
- ➎ Central control over key areas such as capital expenditure authorisation and banking facilities
- ➏ A Group Controls Manager to oversee all internal controls policies and processes

The Group continues to review its system of internal control to ensure compliance with best practice, while also having regard to its size and the resources available. The Board has appointed a Group Controls Manager with internal audit as part of her role. Her role is also to carry out annual reviews of each business unit to ensure that they are achieving a Group-wide minimum control standard, the results of which are reported back to the Board. She also investigates any significant breaches of control and recommends how to prevent such breaches in the future. As part of the Group's review, a number of non-financial controls covering areas such as regulatory compliance, business integrity, health and safety, risk management, business continuity and corporate responsibility (including ethical trading, supplier standards, environmental concerns and employment diversity) have been assessed. The key elements of those non-financial controls are set out below.

Standards and policies: The Board is committed to maintaining appropriate standards for all the Company's business activities and ensuring that these standards are set out in written policies. Key examples of such standards and policies include the Anti Modern Slavery Policy and Employee Code of Conduct. All policies are underpinned by our culture of 'Doing the right thing for our customers, people and suppliers'. Operating procedures for control of store operations are clearly documented and set out in operation manuals. Senior managers are responsible for the implementation of these procedures and compliance is monitored.

Approval process: All material contracts are required to be reviewed and signed by a senior Director of the Company.

Re-assessment: Majestic Wine plc has a business risk register with business continuity plans to address key risks that have an immediate impact. Risks facing the business are re-assessed, and potential mitigating actions are considered and implemented to help protect against those risks.

Employee engagement: Our Code of Conduct includes guidance on anything that could get our employees into trouble (including business integrity, anti-bribery, gifts, intellectual property and design rights). It is sent to everyone in the Group and signed by senior managers and above.

Shareholder relations

The Company remains committed to communicating openly with its shareholders to ensure that its strategy and performance are clearly understood. The Company communicates with shareholders through the Annual Report and Accounts, full-year and half-year announcements, the Annual General Meeting (AGM) and one-to-one meetings with large existing or potential new shareholders. The Head of Investor Relations was appointed in March 2016 and encourages shareholder interaction. A range of corporate information (including all Company announcements and presentations) is also available to shareholders, investors and the public on the Company's new corporate website, www.majesticwineplc.co.uk.

Private shareholders

The AGM is the main forum for dialogue with retail shareholders and the Board. The Notice of Meeting is sent to shareholders at least 21 days before the meeting. The chairs of the Board and all Committees, together with all other Directors, routinely attend the AGM and are available to answer questions raised by shareholders. For each vote, the number of proxy votes received for, against and withheld is announced at the meeting. The results of the AGM are subsequently published on the Company's corporate website.

Institutional shareholders

The Directors actively seek to build relationships with institutional shareholders. Shareholder relations are managed primarily by the Chief Financial Officer and Head of Investor Relations, supported by the Chief Executive Officer, as appropriate. The Chief Executive Officer and Chief Financial Officer make presentations to institutional shareholders and analysts immediately following the release of the full-year and half-year results. The Company communicates with institutional investors frequently through briefings. In addition, analysts' notes and brokers' briefings are reviewed to achieve a wide understanding of investors' views. In March and October 2016, investor site visits were organised with an additional Analyst Teach in April 2016 for sell-side analysts to enhance their understanding of the business post the acquisition of Naked Wines. The Board as a whole is kept informed of the views and concerns of major shareholders by briefings from the Head of Investor Relations. Any significant investment reports from analysts are also circulated to the Board. The Non-Executive Chairman is available to meet with major shareholders if required to discuss issues of importance to them. Recently the Company established a new role of a Senior Independent Director, who will also make himself available to major shareholders should they wish to have a meeting.

Modern slavery statement

We welcome the UK Government's 2015 Modern Slavery Act, which provides a legislative framework for tackling modern slavery. During the year, the Group strengthened our existing sourcing manual and supply chain policies and standards, and established a cross-functional Modern Slavery policy to protect workers against modern slavery within our supply chains.

As part of our Company mission, 'To Do the Right Thing for our People, Customers and Suppliers', we oppose modern slavery in all its forms and will try to prevent it by any means that we can. We expect anyone who has any suspicions of modern slavery in our business or our supply chain to raise their concerns without delay. We promise that we will keep any information provided completely confidential. As a Group, Majestic Wine plc maintains relationships with many different organisations in its supply chain, as well as directly employing over 1,500 people worldwide. In the light of the Modern Slavery Act 2015, we have reviewed our internal measures to ensure that we are doing what we can to prevent slavery and human trafficking in our businesses and in our supply chains.

Remuneration report

Anita Balchandani,
Chair of the Remuneration Committee



“

The objective of the Remuneration Committee is to ensure that shareholder and management interests are aligned. In doing so we also aim to make the schemes more transparent, easier to communicate and simpler to operate.

”

Aims of the Remuneration Committee

- To align executive interests with shareholders
- To offer competitive packages to attract, retain and motivate exceptional people
- To encourage and reward high performance

In order to support our three-year transformation plan, these aims are underpinned by three key principles:

- Alignment with our 2019 ambition to achieve £500m in sales
- Incentivising sustainable growth by measuring relative Total Shareholder Return
- Democratic participation benefiting all employees

Introduction

I am pleased to present this Remuneration report in what has been another busy year for the Group.

Our goal is to align shareholders and the leadership team towards shareholder value creation. Last year, we created policies and schemes that are transparent and easy to operate, while incentivising employees to deliver both annual targets and the long-term business strategy. We will review these policies regularly to ensure that they are achieving this.

Majestic Wine is listed on the Alternative Investment Market and, as such, the following disclosures are prepared on a voluntary basis for the Group.

Remuneration Committee members, meetings and responsibilities

Members and Meetings: The Remuneration Committee consists of the Chairman and the other four Non-Executive Directors. It is chaired by Anita Balchandani and meets as required during the year. The Committee determines the remuneration and benefits of the Executive Directors.

The Executive Directors have rolling one-year contracts subject to one year's notice on either side. The remuneration of Non-Executive Directors is determined by the Board within the limits set by the Company's Articles of Association. They have letters of appointment with the Company and their appointments are terminable on three months' written notice on either side.

The Chief Executive Officer and Chief Financial Officer are invited to attend meetings of the Committee but no Director is involved in any decisions relating to their own remuneration.

None of the Committee has any personal financial interest (other than as shareholders), conflicts of interests arising from cross directorships, or day-to-day involvement in running the business.

Responsibilities: The Committee is responsible for setting the framework and policy for the remuneration of the Executive Directors and designated senior managers. It determines specific elements of their remuneration, their contractual terms and, where necessary, compensation arrangements.

The Committee keeps itself informed of all relevant developments and best practice in the field of remuneration and seeks advice from external advisers when it considers it appropriate.

The principal responsibilities are to:

- Determine and recommend to the Board the Company's overall remuneration policy, and then monitor the ongoing effectiveness of that policy
- Determine and recommend to the Board the remuneration of Executive Directors, the other members of the Executive Board and the Chairman
- Monitor, review and approve the levels and structure of remuneration for other senior managers and employees
- Determine the headline targets for any performance-related bonus or pay schemes
- Determine specific targets and objectives for any performance-related bonus or pay schemes for the Executive Directors and the other members of the Executive Board
- Review and approve any material termination payment

The full terms of reference of the Remuneration Committee are available on the Company's corporate website, www.majesticwineplc.co.uk.

Remuneration policy

A full review and update of the Group's remuneration policy was completed last year (Financial Year 2015/16) and was aligned with the Company strategy to reward employees for enhancing value to shareholders.

In order to align interests with shareholders, attract and retain our colleagues and reward high performance, we have created a remuneration policy with six key components (see pages 44 and 45).

Remuneration report

continued

Remuneration components

There are six main elements of the remuneration package:

Components	Aim	Audience	Implementation
Basic annual salary	To reflect responsibilities, experience and performance	All employees	Annual reviews at the start of each year. Salaries are benchmarked against the average for the industry and skill base.
Annual bonus	To reward our best employees and create a closer link between individual performance and total reward	All employees	In FY2016/17 individual bonuses were earned on the divisional performance of a) sales (40%); b) adjusted EBIT (40%); c) cash (20%) and d) Individual performance which acts as a moderator. The Group sets stretching targets for itself and each business unit. This year, the Group did not achieve the target in aggregate but each division performed differently. Using our bonus formula, which isolates bonus into sales, profit and cash, the range of outcomes in the Group was between 0% and 125% on the forecast payouts, with the Group total being around a 40% total payout. For FY2017/18 onwards, the Board has introduced an adjusted EBIT and sales threshold, which must be met to trigger a bonus payment. The aim of this change is to incentivise each business unit's contribution and to not reward failure in one of our criteria.
Long Term Incentive Plan (LTIP)	To align shareholder and management interests	532 senior management from store manager level upwards	Conditional share awards and nil-cost options were granted in 2016 as a one-time award to current staff to cover the period of the transformation (financial years 2017–2019) and will vest over 3–5 years post launch subject to continued employment and the satisfaction of a Relative Total Shareholder Return criteria compared with a peer group of circa 25 listed UK retailers.
Free shares	To incentivise employees not at managerial level and give a more democratic share of rewards	All employees	The scheme was launched in 2016. Grants are subject to a minimum holding period of three years. New employees are granted shares on an annual basis. The LTIP and SIP share schemes may award up to 10% of total share capital over the next 10 years.
Pension	To support employees after retirement	All employees	Defined contribution on base salary. Contribution depends on seniority of employee.
Other benefits	To support the health and well being of our employees	All employees	Taxable benefits are offered to all employees and increase with seniority. These include healthcare, life assurance, Wine and Spirit Education Trust training and staff discount.

Directors' remuneration

	Basic salary and fees £'000	Benefits £'000	Annual bonus payments** £'000	Long Term Incentive Plans £'000	Company pension contributions £'000	Naked Wines deal-related payments* (Non-cash accounting adjustments) £'000	Total 2017 £'000	Total 2016 £'000
Phil Wrigley	80	–	–	–	–	–	80	155
Rowan Gormley	222	58	–	–	36	5,070	5,386	5,414
James Crawford	194	34	34	47	35	156	500	345
Anita Balchandani	40	–	–	–	–	–	40	32
Brian Gregory Hodder	40	–	–	–	–	–	40	20
Ian Harding	48	–	–	–	–	–	48	65
Justin Apthorp	40	–	–	–	3	–	43	403

Naked Wines deal-related payments/deferred consideration shares*

The Naked Wines deal-related payments are non-cash accounting adjustments. Rowan Gormley and James Crawford were offered shares in Majestic Wine in exchange for their shares in Naked Wines as part of the acquisition consideration. IFRS 2 requires these shares to be accounted for as remuneration and so are charged to the income statement over four years.

In line with the terms of the Naked Wines acquisition agreement, up to £20m contingent consideration is payable in Majestic's ordinary shares to the Naked Wines management team, subject to the achievement of a 75% return on investment (ROI) for Naked Wines each year over a maximum period of four years. The Board is satisfied that ROI performance conditions relating to the deferred contingent consideration for the first year of the earn-out period have been met in full with Naked Wines achieving a ROI of 83% in the year. As a result, the first tranche of Naked Wines acquisition shares vested on 27 April 2017. 29 members of the Naked Wines management team (including James Crawford) were granted a total of 434,115 new ordinary shares of 7.5p each in the Company. Rowan Gormley had trading restrictions removed on his first tranche of shares at the same time.

Directors' total shareholdings are listed on page 38.

Director bonus payments**

The trading performance in the first half of the year was disappointing and resulted in an unscheduled trading update. The Executive Directors took appropriate corrective action and subsequently delivered a very strong second half performance, triggering a partial entitlement to an annual bonus. However, the Executive Directors recognise that the issues in the first half have had a negative impact on shareholder value in the short term and were uncomfortable with taking their bonus entitlement.

At a Remuneration Committee meeting, Rowan Gormley voluntarily waived his bonus entitlement for the year and James Crawford requested his bonus entitlement be deferred for a further 12 months, at which point the business transformation will be further advanced. The Remuneration Committee accepted their proposal and thanked the Executive team for these gestures.

Gender diversity

We are an equal opportunities employer with a diverse workforce; our policy is to recruit, develop, promote, support and retain skilled and motivated people regardless of disability, race, religion or belief, sex, sexual orientation, gender identification, marital status or age. At the end of the financial period, the percentage breakdown of male and female employees across the Group was as follows:

	FY16/17 % Male	FY16/17 % Female
Board	85.7	14.3
Senior management team	71.4	28.6
All employees	69.2	30.8

The Group maintains our policy of hiring the best person for the job. We value diversity and are dedicated in creating an environment that is equal for all.

The Remuneration Committee is mindful of the under-representation of women across the business and the subject is becoming a larger focus. The Board is also aware of its responsibilities as an employer under the forthcoming Gender Pay Gap Reporting, under the Equality Act 2010 (Specific Duties and Public Authorities) Regulations 2017. The Committee expects to make the upcoming required disclosures in the FY2017/18 Annual Report.

Audit Committee report

Ian Harding, FCA,
Chairman of the Audit Committee



“

The objective of the Committee is to provide oversight and governance to the Group's financial reporting, its internal controls and processes, its risk management systems and the appointment and relationship with the external auditor.

”

Key responsibilities

Updated terms of reference were adopted by the Committee during the year, reflecting the appointment of an internal audit function for the first time. These are available on the Majestic Wine Plc Investor Relations website. In accordance with its terms of reference, the Audit Committee is required, among other things, to:

- Monitor the integrity of the financial statements of the Group, reviewing any significant reporting issues and judgements they contain
- Advise on the clarity of disclosure and information contained in the Annual Report and Accounts
- Ensure compliance with applicable accounting standards and review the consistency of methodology applied
- Review the adequacy and effectiveness of the internal control and risk management systems
- Oversee the relationship with the external auditor, reviewing performance and advising the Board on their appointment and remuneration
- Review management's and the internal auditor's reports on the effectiveness of systems for internal financial control, financial reporting and risk management; together with monitoring management's responsiveness to their findings

Governance

The Audit Committee comprises the four independent Non-Executive Directors. It is chaired by Ian Harding, who is a chartered accountant with recent and relevant financial experience. The other three independent Non-Executive Directors are all deemed to have the necessary ability and experience to understand financial statements.

Justin Apthorp, our fifth Non-Executive Director, is not a member as his past experience means that he is not deemed independent. However, he attends all meetings by invitation as the Committee values his deep knowledge of wine retailing and Majestic Wine, as well as his keen eye for detail. The Executive Directors also attend all meetings by invitation and in addition senior management is asked to attend certain meetings where relevant.

The Committee meets a minimum of three times per year and at least twice a year with the external auditor present. Private meetings were also held with the external auditor and the Group Controls Manager at which management was not present.

The key work undertaken by the Committee during the year under review and up to the date of this Annual Report is detailed below.



Activities of the Audit Committee during the year

Internal audit

Following the Audit Committee's recommendation last year, a new position of Group Controls Manager was recruited in August 2016 and a programme of internal audits was initiated.

The initial programme was designed to independently set the standards that the Group should be adhering to, confirm that internal controls were operating adequately, and support improvements to controls where necessary. The Committee received reports covering all of Naked Wines operations (UK, USA and Australia) and Majestic (excluding Calais). Shortly after the financial year end a report was also received for Lay & Wheeler, thereby completing the majority of the Group's worldwide operations.

While controls across the Group are generally adequate, the reports made a number of recommendations which the Committee supports. In each case the local operations leadership team have confirmed to the Committee their improvement plans. Internal Audit will follow these points up in 2017 to confirm satisfactory resolution.

The initiation of an internal audit function and worldwide review has been extremely useful for the Committee and the full Board, and next year's programme will build on this strong start.

Internal controls and risk management

The Board has overall responsibility for the system of internal controls and risk management. The Audit Committee on behalf of the Board has reviewed the effectiveness of the internal controls and risk management.

The Committee received and considered reports during the year from Internal Audit on the work they had undertaken in reviewing and auditing the Group, in order to assess the quality and effectiveness of the internal control system. While no significant failings in control have been found, the work did identify some instances of non-compliance. The Committee was satisfied with management's action plans to implement Internal Audit recommendations to strengthen controls and the 2017/18 internal audit programme includes follow-up audits to verify ongoing compliance.

The Committee also received and considered reports from the external auditor, Deloitte LLP, which included control findings relevant to their audit.

There is an ongoing process to identify, evaluate and manage the risks faced by the Group. Each business unit reports monthly to the Board on key risks identified and measures that are being taken to mitigate the risk. In addition, the Committee oversees a very thorough annual risk management process, the results of which are discussed with the Board. The Strategic Report on pages 1 to 19 includes further detail as to the business risks identified and actions being taken. The process of risk management is continually being developed and improved.

Significant reporting issues and judgements

The Committee reviewed the recommendations of the finance function and received reports from the external auditor on their findings.

The significant reporting matters and judgements the Committee considered during the year included:

- ➊ The presentation of adjusted profit alongside statutory profit. The Committee considered the approach adopted last year and were satisfied that the approach helps provide a clearer and more balanced view of the underlying performance of the business. It also concluded that the approach is being applied consistently from year to year and the rationale is clearly disclosed (see the Financial Review on page 32 for details)
- ➋ The carrying value of goodwill and other intangible assets to determine whether any impairment had been suffered. The Committee reviewed the key financial assumptions underpinning cash flow projections, the discount and long-term growth rates applied thereto and the results of sensitivity analyses. The Committee was satisfied that no impairment was required and that appropriate disclosure has been made (see the Financial Review on page 32 and Note 13 on page 72 for details)

Unscheduled announcement

As well as reviewing the scheduled financial reports the Committee received reports from management on the circumstances surrounding the unscheduled update on 21 September 2016 and closely reviewed the external communications. Whilst the need for an unscheduled update was extremely disappointing, as Rowan explains in his report on page 11, the Committee was satisfied that the Executive team fully investigated the issues and appropriate corrective actions were taken. It was also satisfied that the issues were communicated on a timely basis and in a clear and balanced manner.

The Committee also received a thorough report from Internal Audit on the USA operations. The new CEO of Naked Wine USA attended an Audit Committee meeting by teleconference to discuss the learnings and his plans to implement Internal Audit recommendations.

External audit

The Committee considers a number of areas when reviewing the external auditor appointment, namely their performance in discharging the audit, the scope of the audit and terms of engagement, their independence and objectivity, and their reappointment and remuneration.

The Committee reviews the objectivity and independence of the auditors when considering reappointment. The external auditor reports to the Committee on actions taken to comply with professional and regulatory requirements and is required to rotate the lead audit partner every five years.

Deloitte LLP was first appointed as external auditor in 2014/15 following a formal tender process and David Halstead was appointed lead partner. The Committee has confirmed it is satisfied with the independence, objectivity and effectiveness of Deloitte LLP and has recommended to the Board that the auditors be reappointed, and there will be a resolution to this effect at the forthcoming Annual General Meeting.

In addition to their statutory duties, Deloitte LLP is also engaged where, as a result of its position as external auditor, it is best placed to perform non-statutory audit services, including interim reviews and certain types of tax advice. Other work is awarded on the basis of competitive tendering.

Directors' Report

As required under the Companies Act 2006 the Directors present their report and Group financial statements for the year ended 3 April 2017.

Results and review of the business

The Group income statement is set out on page 53. The Directors' Report should be read in conjunction with the Chairman's Statement and Strategic Report on pages 1 to 19, which include information about the Group's business performance during the year and indication of future prospects. Details of significant events since the balance sheet date are contained. An indication of likely future developments in the business of the Company and details of research and development activities are included in the Strategic Report.

Dividends

A final dividend of 3.6p has been declared, which, combined with an interim dividend of 1.5p per share which was paid on 22 December 2016, makes a total dividend for the year of 5.1p. The Directors' intention is to maintain a capital structure that is both efficient and balanced between investment for growth and returns to shareholders. The Board have agreed a policy which will pay out approximately 35% of adjusted profit after tax from the Financial Year 2017 onwards subject to no major changes in outlook. Any additional earnings which, in the view of the Board, cannot be usefully reinvested back into the Group will be returned to shareholders, subject to achieving leveraged targets of a net debt/adjusted EBITDA ratio of circa 0.5x and a lease adjusted net debt/EBITDAR ratio of circa 2.5x. The final dividend of 3.6p, if approved at the Annual General Meeting, will be payable, subject to shareholder approval, on 16 August 2017 to shareholders on the register at 23 June 2017. The ex dividend date is 22 June 2017.

Strategic Report

The Strategic Report, which can be found on pages 1 to 19, sets out the development and performance of the Group's business during the financial year, the position of the Group at the end of the year and a description of the principal risks and uncertainties, which is set out on pages 16 to 19.

Significant events since the end of the financial year

In addition to the initial cash payment made at the time of the acquisition, a further amount of up to £20m in Majestic Wine plc's ordinary share capital (based on the closing price at 2 April 2015) was issued to management in the form of contingently returnable shares and contingent awards. Due to continuing employment obligations of the recipients of these shares IFRS 2 Share Based Payment treatment has been applied to this element of the consideration and the amounts are being recorded in the Group income statement over the next four years. The first tranche of the Naked Wines acquisition shares was granted on 27 April 2017. Further details are given in the Remuneration report.

Articles of Association

The Company's Articles of Association may only be amended by special resolution and are available on the Company's website at www.majesticwineplc.co.uk under Alternative Investment Market (AIM) Rule 26.

Share capital

The authorised and called up share capital of the Company, together with details of the ordinary shares allotted and purchased during the year are shown in note 24 of the financial statements.

Major shareholders

As at 25 May 2017 the following interests of shareholders in excess of 3% have been notified to the Company.

	Number of ordinary shares held	Ordinary shares as % of issued share capital
Apthorp family	12,954,028	18.30
Rowan Gormley	4,528,881	6.40
T Rowe Price International	4,259,753	6.02
Fidelity Mgt & Research	3,984,590	5.63
Standard Life Investments	3,844,006	5.43
Schroder Investment Mgt	3,118,748	4.41
Baillie Gifford & Co	2,851,654	4.03

Political donations

During the year, no political donations were made.

Annual General Meeting

The Annual General Meeting will be held at 11.30am on 9 August 2017 at Majestic House, The Belfry, Colonial Way, Watford, WD24 4WH. The Notice of Meeting which sets out the resolutions to be proposed at the forthcoming AGM is enclosed with this Annual Report. The Notice specifies deadlines for exercising voting rights and appointing a proxy or proxies to vote in relation to resolutions to be passed at the AGM. All proxy votes will be counted and the numbers for, against or withheld in relation to each resolution will be announced at the Annual General Meeting and published on the Company's website.

Financial reporting

The Group's trading performance is monitored on an ongoing basis. An annual budget is prepared and specific objectives and targets are set. The budget is reviewed and approved by the Board. The key trading aspects of the business are monitored weekly and internal management and financial accounts are prepared quarterly. The results are compared with budget and prior year performance. The Group's financial risk management objectives and policies are discussed in note 21 to the financial statements.

Store control environment

Please see non-financial controls report on page 40 of the Governance report.

Responsible retailing

The Group recognises that alcohol misuse, under-age drinking and poor health are issues causing real concern in the UK today. Majestic takes these matters very seriously and we are committed to the responsible retailing of alcohol in order to help mitigate their impact. We are a supporter of Drinkaware, the Government sponsored trust which promotes responsible drinking. We operate a Challenge 25 scheme to ensure that minors cannot purchase alcohol at our stores. In addition, we have signed up to the Government's Responsibility Deal which aims to improve public health by encouraging responsible drinking. We ensure that customers have access to information about alcohol in-store, on our website and in our promotional literature. Staff training includes principles of social responsibility and alcohol misuse and all tasting events encourage customers to enjoy wine responsibly.

Key Performance Indicators

The Group monitors a number of performance indicators both financial and non-financial. The following non-financial indicators are either currently monitored, or will be monitored in the future once appropriate systems and processes have been finalised to do so:

KPIs (53 weeks to 3 April 2017)	Retail	Naked Wines	Commercial	Lay & Wheeler
Repeat customer retention	68%	67%	76%	73%
Product availability	82%	85%	79%	N/A
Team retention	74%	64%	62%	79%
Wine quality (Buy it Again ratings)	91%	90%	N/A	N/A
Proportion of 5* service ratings	87%	89%	N/A	93%

These indicators are discussed in the Chairman's statement and the Strategic Report.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the Group and Company financial statements in accordance with applicable United Kingdom law and regulations.

Company law requires the Directors to prepare Group and Company financial statements for each financial year. Under that law, and as required by the AIM rules, the Directors have elected to prepare the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU).

Under company law the Directors must not approve the Group and Company financial statements unless they are satisfied that they give a true and fair view of the state of the affairs of the Group and Company and of the profit or loss of the Group for that period. In preparing those financial statements, the Directors are required to:

- ➊ Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business
- ➋ Present fairly the Group and Company financial position, financial performance and cash flows
- ➌ Select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, and then apply them consistently
- ➍ Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information
- ➎ Make judgements that are reasonable
- ➏ Provide additional disclosures when compliance with the specific requirements in IFRSs, as adopted by the EU, is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's and Company's financial position and financial performance
- ➐ State whether the Group and Company financial statements have been prepared in accordance with IFRSs, as adopted by the EU, subject to any material departures disclosed and explained in the financial statements

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and to enable them to ensure that the Group and Company financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' statement as to disclosure of information to auditor

The Directors who were members of the Board at the time of approving the Directors' Report are listed on pages 36 and 37. Having made enquiries of fellow Directors and of the Company's auditor, each of these Directors confirms that:

- ➊ To the best of each Director's knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditor is unaware
- ➋ Each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditor is aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Employees

The Directors recognise the value of involving employees in the business and ensure that matters of concern to them, including the Group's aims and objectives, are communicated in an open and regular manner.

Employees are kept informed of the Group's performance and activities by regular briefings. Directors and senior managers visit stores frequently to brief staff and discuss matters of concern or interest. The Group's senior staff participate in the Group's share option schemes, and the deferred bonus scheme. Recruitment and training development policies give equal opportunity to all employees regardless of age, sex, colour, race, religion or ethnic origin. The Group's policy is to recruit disabled workers for those vacancies that they are able to fill. The Group uses its best endeavours to continue to employ persons who become disabled during their employment. Training programmes are held for all levels of staff. These are aimed at increasing skills and contribution with particular emphasis placed on product knowledge and customer service skills.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the financial review. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are also described in that review. In addition, note 21 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposure to credit and liquidity risk. The Board is currently of the opinion that the Group's forecasts and projections, which take account of reasonable possible changes in trading performance, show that the Group is able to meet its banking covenants and to operate within the current committed borrowing facilities described in note 20. The Board is satisfied that the Group has adequate financial resources to continue to operate for the foreseeable future and is financially sound. For this reason, the going concern basis is considered appropriate for the preparation of financial statements.

Auditor

A resolution to reappoint Deloitte LLP as auditor of the Company will be put to the Annual General Meeting. The Directors will also be given the authority to fix the auditor's remuneration.

By order of the Board



James Crawford

Group Chief Financial Officer and Company Secretary

Majestic House
The Belfry
Colonial Way
Watford
WD24 4WH

14 June 2017

Registered in England and Wales
No. 2281640

Independent auditor's report to the members of Majestic Wine plc

In respect of the financial statements

We have audited the financial statements of Majestic Wine PLC for the 53 weeks ended 3 April 2017 which comprise the Group income statement, the Group statement of comprehensive income, the Group and Company statement of changes in equity, the Group and Company balance sheets, the Group and Company cash flow statements and the related notes 1 to 36. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- The financial statements give a true and fair view of the state of the Group's and parent Company's affairs as at 3 April 2017 and of the Group's loss for the year then ended
- The Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union
- The parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with provisions of the Companies Act 2006
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- Adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us, or
- The parent Company financial statements are not in agreement with the accounting records and returns, or
- Certain disclosures of Directors' remuneration specified by law are not made, or
- We have not received all the information and explanations we require for our audit

David Halstead (Senior statutory auditor)

for and on behalf of Deloitte LLP

Statutory Auditor

St Albans

14 June 2017

Group income statement

For the year ended 3 April 2017

	Note	Year ended 3 April 2017 £'000	Year ended 28 March 2016 £'000
Revenue	4	465,444	402,086
Cost of sales		(343,837)	(297,835)
Gross profit		121,607	104,251
Distribution costs		(55,646)	(45,836)
Administrative expenses		(67,018)	(52,898)
Other operating income		811	766
Operating (loss)/profit	7	(246)	6,283
Net finance charge	9	(1,222)	(1,540)
(Loss)/profit before taxation		(1,468)	4,743
Analysed as:			
Adjusted profit before taxation		12,877	15,021
Adjusted items:	6		
– Non-cash charges relating to acquisitions		(11,267)	(11,508)
– Other adjusted items		(3,078)	1,230
(Loss)/profit before taxation		(1,468)	4,743
Taxation	10	(1,227)	(2,419)
(Loss)/profit for the period		(2,695)	2,324
(Loss)/earnings per share			
Basic	11	(4.1p)	3.5p
Diluted		N/A	3.3p
Adjusted basic		17.7p	19.2p
Adjusted diluted		16.3p	18.1p

The results are all derived from continuing operations.

Group statement of comprehensive income

For the year ended 3 April 2017

	Year ended 3 April 2017 £'000	Year ended 28 March 2016 £'000
(Loss)/profit for the period	(2,695)	2,324
Other comprehensive income		
Currency translation differences on foreign currency net investments	1,780	553
Other comprehensive (losses)/income	1,780	553
Total comprehensive (losses)/income for the period	(915)	2,877

The total comprehensive loss for the year and income for the prior year is wholly attributable to the equity holders of the parent Company, Majestic Wine PLC.

Other comprehensive income relates to foreign currency translation differences on consolidation of foreign currency subsidiaries. These gains and losses are recycled to the income statement in the event of the disposal of a foreign currency subsidiary.

Group statement of changes in equity

For the year ended 3 April 2017

	Share capital £'000	Share premium £'000	Capital reserve – own shares £'000	Capital redemption reserve £'000	Currency translation reserve £'000	Retained earnings £'000	Total Shareholders' funds £'000
At 30 March 2015	4,924	19,970	(17)	363	1,505	71,821	98,566
Total comprehensive income for the period	–	–	–	–	553	2,324	2,877
Shares issued in relation to acquisition	370	–	–	–	–	(289)	81
Shares issued	13	471	–	–	–	–	484
Share based payment charges – ongoing	–	–	–	–	–	172	172
Share based payment charges – acquisition related	–	–	–	–	–	6,846	6,846
Deferred taxation	–	–	–	–	–	188	188
At 28 March 2016	5,307	20,441	(17)	363	2,058	81,062	109,214
Total comprehensive income/(loss) for the period	–	–	–	–	1,780	(2,695)	(915)
Shares issued	2	64	–	–	–	–	66
Share based payment charges – ongoing	–	–	–	–	–	599	599
Share based payment charges – acquisition related	–	–	–	–	–	6,673	6,673
Dividends paid	–	–	–	–	–	(1,062)	(1,062)
Deferred taxation	–	–	–	–	–	(3)	(3)
At 3 April 2017	5,309	20,505	(17)	363	3,838	84,574	114,572

Group balance sheet

As at 3 April 2017

	Note	Year ended 3 April 2017 £'000	Year ended 28 March 2016 £'000
Non current assets			
Goodwill and intangible assets	13	51,447	56,671
Property, plant and equipment	14	68,011	70,038
En primeur purchases	15	1,841	1,291
Prepaid operating lease costs	16	1,905	2,115
Deferred tax assets	10	1,696	1,129
		124,900	131,244
Current assets			
Inventories	17	94,834	80,732
Trade and other receivables	18	14,973	12,416
En primeur purchases	15	3,030	1,657
Financial instruments at fair value	21	–	889
Cash and cash equivalents		23,007	6,875
		135,844	102,569
Total assets		260,744	233,813
Current liabilities			
Trade and other payables	19	(56,019)	(61,801)
En primeur deferred income	15	(3,937)	(2,150)
Deferred Angel income		(28,406)	(18,832)
Bank overdraft	20	(12,537)	(3,071)
Provisions	22	(235)	(747)
Deferred lease inducements	23	(437)	(433)
Customer bond finance	20	(2,619)	(4,990)
Financial instruments at fair value	21	(1,090)	–
Current tax liabilities	10	(185)	(1,443)
		(105,465)	(93,467)
Non-current liabilities			
En primeur deferred income	15	(2,122)	(1,469)
Deferred lease inducements	23	(2,215)	(2,552)
Provisions	22	(829)	–
Bank loan	20	(33,512)	(24,317)
Deferred tax liabilities	10	(2,029)	(2,794)
		(40,707)	(31,132)
Total liabilities		(146,172)	(124,599)
Net assets		114,572	109,214
Shareholders' funds			
Called up share capital	24	5,309	5,307
Share premium	24	20,505	20,441
Capital reserve – own shares	25	(17)	(17)
Capital redemption reserve		363	363
Currency translation reserve		3,838	2,058
Retained earnings		84,574	81,062
Equity shareholders' funds		114,572	109,214

The financial statements were approved by the Board on 14 June 2017 and signed on its behalf by James Crawford.

Group cash flow statement

For the year ended 3 April 2017

	Note	Year ended 3 April 2017 £'000	Year ended 28 March 2016 £'000
Net cash generated by operating activities			
Cash generated by operations	28	9,127	18,650
Foreign exchange differences		315	229
UK income tax paid		(3,354)	(3,905)
Overseas income tax paid		(591)	(821)
Net cash generated by operating activities		5,497	14,153
Cashflows from investing activities			
Purchase of property, plant and equipment		(3,311)	(4,994)
Purchase of intangible fixed assets		(190)	(973)
Purchase of prepaid lease assets		(22)	(271)
Acquisition of subsidiary, net of cash received		–	(36,081)
Acquisition costs and payments		–	(8,535)
Proceeds from sale of non-current assets		21	6,173
Net cash outflow from investing activities		(3,502)	(44,681)
Cashflows from financing activities			
Interest paid		(874)	(1,350)
Issue of ordinary share capital		66	566
Draw down of borrowings		9,000	50,000
Repayment of borrowings		(2,371)	(25,007)
Loan arrangement fees paid		(88)	(844)
Equity dividends paid		(1,062)	–
Net cash inflow from financing activities		4,671	23,365
Net (decrease)/increase in cash		6,666	(7,163)
Cash and cash equivalents at beginning of year		3,804	10,967
Cash and cash equivalents at end of year	28	10,470	3,804

Notes to the financial statements

1 General information

Majestic Wine PLC is a public limited company ("Company") and is incorporated in the United Kingdom under the Companies Act 2006. The Company's ordinary shares are traded on the Alternative Investment Market ("AIM").

The address of the registered office is given on page 95. The Group's principal activity is the retailing of wines, beers and spirits. The Company's principal activity is to act as a holding company for its subsidiaries.

2 Accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements presented in this document have been prepared in accordance with the Companies Act, International Financial Reporting Standards ("IFRSs") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations as adopted by the European Union as they apply to the financial statements of the Group for the 53 week period ending 3 April 2017.

The Group's financial reporting year represents the 53 weeks to 3 April 2017 and the prior financial year, 52 weeks to 28 March 2016.

The consolidated financial statements are presented in sterling, the functional and presentational currency of the parent company.

The financial statements have been prepared on a historical cost basis except for financial instruments which are measured at fair values as the end of each reporting period, as explained in the accounting policies below.

The preparation of financial statements in conformity with adopted IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

The Company has taken advantage of the exemption provided in section 408 of the Companies Act 2006 not to publish its individual income statement and related notes. The Company's profit for the year is £4,463,000 (2015: loss of £2,861,000). The Company has not made any other comprehensive income and consequently has not presented a statement of comprehensive income for the year.

There has been no significant impact on the Group's results, net assets, cash flows and disclosures on adoption of new or revised standards in the year.

The following new amendments to published standards and new standards are due to be effective in future periods:

IFRS	Subject	Effective from	Date to be adopted by the Group
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017	2017/18
IFRS 16	Leases	1 January 2019	2019/20
IFRS 9	Financial instruments	1 January 2018	2018/19
IFRS 15	Revenue from contracts with customers	1 January 2018	2018/19
IFRIC 22	Foreign currency transactions and advance consideration	1 January 2018	2018/19
Amendments to IFRS 4	Instruments with IFRS 4 Insurance Contracts	1 January 2018	2018/19
Amendments to IFRS 2	Share based payment transactions	1 January 2018	2018/19

The Directors anticipate the adoption of the standards detailed above will have no material impact on the Group's financial statements when those standards come into effect, other than in the case of IFRS 16 which is discussed below.

IFRS 16 Leases

IFRS 16 will be effective for periods that begin on or after 1 January 2019. Implementing IFRS 16 will result in an increase to both the Group's assets and liabilities by a material amount. It will also impact the phasing of the overall cost of the lease in the income statement.

The Group leases stores, offices, warehouses and equipment such as fork lift trucks, lorries and vans. Under the current leasing standard these leases are treated as operating leases and the rent payments are charged to the income statement on a straight line over the period of the lease. When IFRS 16 comes into effect, these leases will be brought onto the balance sheet as assets, with a corresponding liability to reflect the obligation to make future lease payments.

Both depreciation of the lease asset and a notional interest charge on the liabilities will be recognised in the income statement. This will result in higher costs in the income statement in the early periods of a lease and lower costs in the later periods of a lease (driven by the notional interest charge).

The impact of the standard on the Group is currently being assessed and it is not yet practical to quantify the effect of implementing IFRS 16 on these consolidated financial statements.

2 Accounting policies (continued)

2.2 Basis of consolidation

The consolidated financial statements include the financial statements of Majestic Wine plc and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has:

- Power over the investee
- Is exposed, or has rights, to variable return from its involvement with the investee; and
- Has the ability to use its power to affect its returns

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated statement of profit or loss from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

All intra-Group transactions, balances, income and expenses are eliminated on consolidation

2.3 Going concern

In adopting the going concern basis for preparing the financial statements, the Directors have considered the business activities of the Group and the principal risks and uncertainties laid out on pages 16 to 19. Based on the Group's cash flow forecasts, the Directors are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis of accounting in preparing the financial statements.

2.4 Presentation of adjusted items

The Group's income statement and segmental analysis separately identify trading results before certain adjusted items. The directors believe that presentation of the Group's results in this way is relevant to understanding the Group's financial performance. Adjusted items are identified by virtue of their size, nature or incidence. This presentation is consistent with the way that financial performance is measured by management and reported to the Board and provides a meaningful analysis of the trading results of the Group. In determining whether an event or transaction should be adjusted for, management considers quantitative as well as qualitative factors such as the frequency or predictability of the item. Details of adjusted items can be found in note 6.

2.5 Segmental reporting

IFRS 8 requires operating segments to be determined based on the Group's internal reporting to the Chief Operating Decision Maker ("CODM"). The CODM has been determined to be the Board as they are primarily responsible for the allocation of resources to segments and the assessment of performance of the segments.

The Group's operating segments are organised into four distinct business units, each operating in a separate segment of the overall wine market. Retail is a customer based wine retailer, selling wine, beer and spirits from stores across the UK, and online, and also incorporates the Group's French business. Commercial is a Business to Business ("B2B") wine retailer selling to pubs, restaurants and events. Lay & Wheeler is a specialist in the fine wine market and also provides cellarage services to customers. Naked Wines is a customer funded international online wine retailer.

Performance of each operating segment is based on Sales and Adjusted EBIT (being operating profit less any Adjusted Items). These are the financial performance measures that are reported to the CODM, along with other operational performance measures, and are considered to be useful measures of the underlying trading performance of each segment. Adjusted Items are not allocated to the operating segments as this reflects how they are reported to the Board.

2.6 Revenue recognition

Revenue represents the total amount receivable for the sales of goods and services, net of discounts and excluding value added tax sold in the ordinary course of business.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is recognised when significant risks and rewards of ownership have been transferred to the buyer and there is reasonable certainty over recovery of the consideration.

Revenue from the sale of goods represents the sale of wines, beers and spirits in store, online and en primeur sales. Revenue relating to the sale of en primeur wines is recognised when the wines are made available to the customer, which may be up to two years following the actual payment made by the customer.

Revenue from the provision of services represents cellarage income.

2.7 Cost of sales

Cost of sales consists of the cost of the product, including excise duties, credit card processing charges and the costs of the retail stores and online selling teams.

Supplier incentives, rebates and discounts are recognised within cost of sales as they are earned.

2.8 Finance costs

Financing expenses comprise interest payable under the effective interest rate method, including the amortisation of loan arrangement fees. Finance income comprises interest receivable on funds invested and positive cash balances.

Notes to the financial statements

continued

2 Accounting policies (continued)

2.9 Share based payments

The Company operates a number of equity-settled share-based compensation plans. The fair value of the employee services received in exchange for the grant of shares or options is recognised as an expense over the vesting period. The total amount to be expensed over the vesting period is determined by reference to the fair value of shares or options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of shares or options that are expected to vest. At each balance sheet date, the Group revises its estimates of the number of shares or options that are expected to vest and recognises the impact of the revision to original estimates, if any, in the statement of profit or loss, with a corresponding adjustment to equity.

2.10 Taxation

Income tax on the profit or loss for the period comprises current and deferred tax.

Current tax

Income tax is recognised in the income statement. Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax

Deferred taxation is accounted for in respect of temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in computation of taxable profit. Deferred tax is measured at the tax rates that are expected to apply in the periods in which the asset or liability is settled based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. It is recognised in the income statement except when it relates to items credited or charged directly to other comprehensive income, in which case the deferred tax is also recognised in equity.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary difference can be utilised. Their carrying amount is reviewed at each balance sheet date on the same basis. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and when the Group intends to settle its current tax assets and liabilities on a net basis.

Deferred income tax liabilities are recognised for all temporary differences, except where the deferred income tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and at the time of the transaction affects neither the accounting profit nor taxable profit or loss and in respect of taxable temporary differences associated with investments in subsidiaries where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

2.11 Foreign currencies

Transactions in foreign currencies are translated at the exchange rate on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement for the period.

The consolidated financial statements are presented in sterling which is the Company's functional and presentational currency. Each entity in the Group determines its own functional currency. The income and expenses of overseas subsidiaries are translated at the average rate of exchange ruling during the year. The balance sheet of the overseas subsidiary undertaking is translated into sterling at the rate of exchange ruling at the balance sheet date. Exchange differences arising from the translation of overseas subsidiaries are reported in the statement of comprehensive income and are transferred to the Group's currency translation reserve.

2.12 Business combinations and goodwill

Business combinations are accounted for using the acquisition method. Identifiable assets acquired and liabilities assumed in a business combination are measured at their fair values at the acquisition date.

Goodwill arises when the fair value of the consideration for a business exceeds the fair value of the net assets acquired. Goodwill arising on acquisitions is capitalised and subject to impairment review, both annually and when there are indications that the carrying value may not be recoverable.

Goodwill arising on acquisitions after 31 December 1997 and before 28 March 2005 (the date of transition to IFRS) has been recognised at the previously reported UK GAAP value. Goodwill arising on the acquisition of subsidiaries prior to 31 December 1997 was written off immediately against reserves.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to cash generating units ("CGUs"), or groups of CGUs. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

The recoverable amounts of CGUs are determined based on the higher of net realisable value and value in use calculations. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the business.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount with the impairment loss being recognised in the income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU) in prior years. A reversal of an impairment loss is recognised immediately in the income statement.

2 Accounting policies (continued)**2.12 Business combinations and goodwill (continued)**

Acquisition related costs are recognised in the income statement as incurred.

On 10 April 2015 the Group acquired the entire share capital of Naked Wines International Limited and all its subsidiaries ('Naked Wines'). In addition to the cash consideration paid, a further amount of up to £20m is payable to the previous shareholders and employees of Naked Wines in the form of Majestic Wine PLC share capital. These shares are conditional on the achievement of certain performance criteria. Details of these shares can be found in note 26. These shares are accounted for under IFRS 2 Share Based Payments and result in a charge to the income statement.

2.13 Other intangible assets

Other intangible assets are stated at cost less accumulated amortisation and any impairment losses.

Amortisation is charged to the income statement on a straight line basis over the estimated useful lives of each asset. The estimated useful lives are as follows:

Customer list and relationships	6 years
Brand	8 years
Software	2-5 years
Licences	Over the term of the licence

Customer lists and relationships and brands arise only on acquisition.

2.14 Impairment reviews

Impairment reviews in respect of other intangible and tangible assets are performed when an event indicates that an impairment review is necessary. Examples of such triggering events include a significant planned restructuring, a major change in market conditions or technology, expectations of future operating losses, or a significant reduction in cash flows.

2.15 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is charged to the income statement on a straight line basis to write the cost of an asset down to its residual value over the estimated useful lives of each asset. The estimated useful lives are as follows:

Freehold land	Not depreciated
Freehold buildings	50 years (or the term of the lease and leasehold properties if less than 50 years)
Equipment, fittings and vehicles	3-10 years

Land and buildings under construction and non-current assets held for sale are not depreciated.

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

2.16 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a first in, first out basis and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs in bringing them to their existing location and condition, less rebates and discounts.

2.17 Provisions

A provision is made when there is a present legal or constructive obligation as a result of past event, for which it is probable that an outflow of economic benefit will be required to settle the obligation, and where the amount of the obligation can be reliably measured. Provisions are discounted for the time value of money where the effect is material.

2.18 Leases***Group as lessee***

Assets held under finance leases, where substantially all the risks and rewards of ownership are transferred to the Group, are capitalised and included in property, plant and equipment at the lower of the present value of future minimum lease payments or fair value. Each asset is depreciated over the shorter of the lease term or its estimated useful life on a straight line basis. Obligations relating to finance leases, net of finance charges in respect of future periods, are included under borrowings. The interest element of the rental obligation is allocated to accounting periods during the lease term to reflect a constant rate of interest on the remaining balance of the obligation for each accounting period.

Leases in which a significant portion of risks and rewards of ownership are retained by the lessor are classified as operating leases. Rental costs under operating leases, net of any incentives received from the lessor, are charged to the income statement on a straight-line basis over the lease period.

Group as lessor

Assets leased out under operating leases are included in property, plant and equipment and depreciated over their useful lives. Rental income, including the effect of lease incentives, is recognised on a straight line basis over the lease term.

2.19 Pensions

The Group contributes to a number of defined contribution pension plans in respect of its employees. The contributions are charged as an expense as they fall due. Any contributions unpaid at the balance sheet date are included as an accrual at that date. The Group has no further payment obligations once the contributions have been paid.

Notes to the financial statements

continued

2.20 Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade and other receivables

Trade and other receivables are initially measured at fair value and subsequently measured at amortised cost less any provision for impairment. A provision is made for impairment when it is likely that the balance will not be recovered in full.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits, with original maturities at inception of less than 90 days. For the purpose of the cash flow statement, cash and cash equivalents comprise cash at bank, cash in hand, short-term deposits with an original maturity of three months or less held for the purpose of meeting short-term cash commitments and bank overdrafts.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Interest-bearing bank loans and overdrafts are measured initially at fair value net of attributable arrangement costs, and subsequently at amortised cost, using the effective interest rate method.

Trade and other payables are recorded at fair value which is estimated to be equivalent to book value.

Equity instruments issued by the Company are recorded at the amount of the proceeds received, net of directly attributable issue costs.

Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to foreign currency fluctuations arising from operational activities. These instruments are primarily foreign exchange forward contracts. The Group does not hold or issue derivative financial instruments for speculative purposes.

Derivative financial instruments are initially measured at fair value on the contract date and are re-measured at fair value at subsequent reporting dates. For derivative financial instruments not designated as a hedge, the gain or loss on re-measurement to fair value is immediately recognised in the income statement.

There were no derivatives accounted for using hedge accounting during the year.

2.21 Own shares

Majestic Wine PLC shares held by the Group are classified in shareholders' equity as 'Capital reserve-own shares' and are recognised at cost. No gain or loss is recognised in the income statement on the purchase or sale of such shares.

3 Critical accounting policies, estimates and judgements

The following are areas of particular significance to the Group's financial statements and include the use of estimates and the application of judgement, which is fundamental to the compilation of a set of financial statements.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

In the process of applying the Group's accounting policies the Directors consider there to be no critical accounting judgements that have a significant effect on the amounts recognised in the financial statements.

The following are considered to be key areas of estimation and uncertainty.

3.1 Impairment of tangible and intangible assets including goodwill

In determining whether tangible and intangible assets are impaired, the recoverable amount of CGUs are determined based on the higher of net realisable value and value in use calculations. These value in use calculations require the use of estimates. The Group has considered the impact of the assumptions used on the calculations and has conducted sensitivity analysis on the impairment tests of the CGUs carrying values. See note 13 for further details.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the business.

3.2 Amortisation of acquired intangible assets

Acquired customer lists, brands, software, licences and tangible fixed assets are considered to have finite lives (refer to note 2.13). The determination of the useful lives takes into account certain quantitative factors such as sales expectations and growth prospects, and also many qualitative factors such as history and heritage, and market positioning, hence the determination of useful lives are subject to estimates and judgement.

4 Revenue

Revenue comprises the fair value of consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities.

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have transferred to the customer and the amount of revenue can be measured reliably. Revenue from the sale of goods represents the sale of wines, beers and spirits in store, online and en primeur sales.

Revenue relating to the sale of en primeur wines is recognised when the wines are made available to the customer, which may be up to two years following the actual payment made by the customer.

Services

Revenue from the provision of services is recognised when the service is provided and the revenue can be measured reliably. Revenue from the provision of services relates to cellarage income.

Rental income

The Group subleases surplus space in various owner-occupied stores, office and warehouses and recognises rental income from such subleases in the period in which it is earned, in line with the terms of the subleases.

5 Segmental reporting

The Group's operating segments are organised into four distinct business units, each operating in a separate segment of the overall wine market. Retail is a customer based wine retailer, selling wine, beer and spirits from stores across the UK, and online, and also incorporates the Group's French business. Commercial is a Business to Business ('B2B') wine retailer selling to pubs, restaurants and events. Lay & Wheeler is a specialist in the fine wine market and also provides cellarage services to customers. Naked Wines is a customer funded international online wine retailer.

The Chief Operating Decision Maker (CODM), who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors.

Performance of each operating segment is based on Sales and Adjusted EBIT (being operating profit less any adjusted Items). These are the financial performance measures that are reported to the CODM, along with other operational performance measures, and are considered to be useful measures of the underlying trading performance of each segment. Adjusted Items are not allocated to the operating segments as this reflects how they are reported to the CODM.

The revenue and profits of the Lay & Wheeler operating segment as presented to the CODM are recognised on the receipt of orders, cash receipts and payments in relation to en primeur campaigns. The segment performance is reviewed in this way as resources utilised in generating these sales are expensed as incurred. This differs from the revenue recognition policy required under IAS 18 where revenue is recognised on delivery of the wine to the customer, which may be up to two years after the original order and payment. As a result a reconciling item is presented between the total operating segments revenue and results and the IFRS statutory measure.

Costs relating to centralised Group functions are not allocated to operating segments for the purposes of assessing segmental performance and consequently central costs are presented as a separate segment.

Inter-segment transactions are conducted on an arm's length basis. The Group is not reliant on a major customer or group of customers.

All activities are continuing.

Year ending 3 April 2017	Retail £'000	Commercial £'000	Naked Wines £'000	L&W £'000	Unallocated £'000	Group £'000
Segment revenue	262,200	46,628	144,341	14,715	–	467,884
Movement in en primeur sales	–	–	–	(2,440)	–	(2,440)
Reported third party revenue	262,200	46,628	144,341	12,275	–	465,444
Segment result – Adjusted EBIT	13,345	2,541	1,417	980	(4,184)	14,099
Net finance costs						(1,222)
Adjusted profit before taxation						12,877
Adjusted items:						
– Non cash items relating to acquisitions						(11,267)
– Other adjusted items						(3,078)
Loss before taxation						(1,468)
Depreciation	4,982	–	362	106	–	5,450
Amortisation	1,201	–	4,096	321	–	5,618
Geographical analysis						
	UK	Rest of Europe	US	Australia		Group
Reported third party revenue	377,398	7,658	58,347	22,041		465,444
Non-current assets	119,414	2,845	2,544	97		124,900

Notes to the financial statements
continued**5 Segmental reporting (continued)**

Year ended 28 March 2016 (restated)	Retail £'000	Commercial £'000	Naked £'000	L&W £'000	Unallocated £'000	Group £'000
Segment revenue	244,027	45,557	102,534	10,658	–	402,776
Movement in en primeur sales	–	–	–	(690)	–	(690)
Reported third party revenue	244,027	45,557	102,534	9,968	–	402,086

Segment result – adjusted EBIT	13,984	3,770	979	152	(2,324)	16,561
Net finance costs						(1,540)
Adjusted profit before taxation						15,021
Adjusted items:						
– Non-cash items relating to acquisitions						(11,508)
– Other adjusted items						1,230
Profit before taxation						4,743

Depreciation	5,005	–	220	104	–	5,329
Amortisation	1,098	–	3,995	276	–	5,369

Geographical analysis

	UK	Rest of Europe	US	Australia	Group
Reported third party revenue	344,440	7,544	38,625	11,477	402,086
Non-current assets	127,338	2,604	1,263	39	131,244

6 Adjusted items

	Year ended 3 April 2017 £'000	Year ended 28 March 2016 £'000
Non-cash charges relating to acquisitions		
Amortisation of acquired intangibles	(4,321)	(4,220)
Acquisition-related share based payment charges	(6,946)	(7,288)
	(11,267)	(11,508)
Other adjusted items		
Impairment of Lay & Wheeler goodwill	–	(2,606)
Profit on disposal of property	–	4,801
Acquisition costs	(53)	(519)
Restructuring costs	(819)	(1,045)
Fair value movement through P&L on foreign exchange contracts	(957)	830
En primeur adjustment	(517)	(59)
Share based payment charges	(732)	(172)
	(3,078)	1,230
Total adjusted items	(14,345)	(10,278)

7 Operating (loss)/profit

Operating (loss)/profit for the year has been arrived at after charging/(crediting):

	Year ended 3 April 2017 £'000	Year ended 28 March 2016 £'000
Depreciation	5,450	5,329
Amortisation of operating lease costs	233	241
Amortisation of intangible fixed assets	5,618	5,369
Impairment of Lay & Wheeler goodwill	–	2,606
Impairment of properties	–	1,197
Operating lease rentals:		
– Land and buildings	10,782	10,611
– Other leases	1,284	1,020
– Sublease payments received	(341)	(87)
– Lease payments received	(467)	(449)
Profit on sale of properties	–	(4,801)
Profit on sale of plant and equipment	(6)	(19)
Bad debt expense	60	106
Net currency exchange loss/(gain)	1,072	(233)

Auditors' remuneration

Fees payable for the audit of the Company's subsidiaries	338	184
Fees payable for the audit of the acquisition of Naked Wines	–	88
Fees payable to the Company's auditor and their associates for the audit of the Company's subsidiaries	338	272
Fees payable to the Company's auditor and their associates for the audit of the Company's annual accounts	17	17
Total audit fees	355	289

Audit related assurance services	27	12
Other taxation advisory services	12	8
Corporate finance services	8	76
Total non-audit fees	47	96

Total fees paid to the Company's auditor	402	385
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Notes to the financial statements
continued**8 Staff costs**

The average monthly number of employees (including Directors) during the year was as follows:

	Year ended 3 April 2017	Year ended 28 March 2016
Administrative and distribution	402	333
Sales	1,187	1,121
	1,589	1,454

Their aggregate remuneration comprised:

	Year ended 3 April 2017 £'000	Year ended 28 March 2016 £'000
Wages and salaries	49,343	40,866
Social security costs	5,318	4,279
Contributions to defined contribution pension plans	727	925
Share based payment charges – ongoing	599	172
Share based payment charges – acquisition related	6,673	6,846
	62,660	53,088

Directors' emoluments comprised:

	Year ended 3 April 2017 £'000	Year ended 28 March 2016 £'000
Salary and benefits	756	1,037
Compensation for loss of office	–	392
Bonus accrued	34	117
Pension contributions to money purchase schemes	74	110
Emoluments before share based payment charges	864	1,656
Share based payments charge	5,226	5,218
	6,090	6,874

The highest paid Director's emoluments comprised:

	Year ended 3 April 2017 £'000	Year ended 28 March 2016 £'000
Salary and benefits	280	253
Bonus accrued	–	68
Pension contributions to money purchase schemes	36	23
Emoluments before share based payment charges	316	344
Share based payments charge	5,070	5,070
	5,386	5,414

Detailed disclosure of Directors' remuneration is set out in the Remuneration Report on page 42.

9 Finance income and charges

	Year ended 3 April 2017 £'000	Year ended 28 March 2016 £'000
Interest payable on bank overdraft	(70)	(7)
Interest payable on revolving credit facility	(592)	(952)
Interest payable on customer funded bond	(366)	(451)
Amortisation of debt issuance costs	(195)	(187)
Interest payable	(1,223)	(1,597)
Bank interest receivable	1	57
Net finance charge	(1,222)	(1,540)

10 Taxation**(a) Taxation charge**

	Year ended 3 April 2017 £'000	Year ended 28 March 2016 £'000
Current income tax expense		
UK income tax	(2,345)	(3,437)
Overseas income tax	(492)	(745)
Adjustment in respect of prior periods	–	42
Foreign exchange	275	–
Current income tax expense	(2,562)	(4,140)
Deferred tax expense		
Origination and reversal of temporary differences	1,705	1,423
Adjustment in respect of prior periods	(237)	84
Effect of change in tax rate on prior period balances	59	214
Foreign exchange	(192)	–
Total deferred tax credit	1,335	1,721
Total income tax charge for the year	(1,227)	(2,419)

Changes to the UK corporation tax rates were enacted as part of Finance Bill 2015 on 18 November 2015. These included reductions to the main rate to reduce the rate to 19% from 1 April 2017 and to 18% from 1 April 2020. A subsequent change to reduce the UK corporation tax rate to 17% from 1 April 2020 was included within Finance Bill 2016 which was enacted on 6 September 2016.

Notes to the financial statements
continued**10 Taxation (continued)****(b) Taxation reconciliation**

The tax charge for the year differs from the standard rate of corporation tax in the UK of 20% (2016: 21%). The reasons for this are detailed below:

	Year ended 3 April 2017 £'000	Year ended 28 March 2016 £'000
(Loss)/profit before taxation	(1,468)	4,743
Taxation credit/(charge) at the standard UK corporation tax rate of 20% (2016: 20%)	293	(949)
Adjustments in respect of prior periods	(237)	126
Overseas income tax at higher rates	(130)	(227)
Disallowable expenditure	(1,404)	(2,166)
Income not subject to income tax	23	196
Deferred tax not previously recognised	87	230
Capital gains	–	157
Change in tax rate on prior period deferred tax balances	59	214
Foreign exchange	82	–
Total income tax expense	(1,227)	(2,419)
Effective tax rate	-83.4%	51.0%
Adjusted effective tax rate	19.9%	27.6%

(c) Taxation on items recorded in other comprehensive income

	Year ended 3 April 2017 £'000	Year ended 28 March 2016 £'000
Deferred tax (charge)/credit on share based payments	(3)	188
Total tax on items (charged)/credit to equity	(3)	188

(d) Deferred tax

	Year ended 3 April 2017 £'000	Year ended 28 March 2016 £'000
At beginning of year	(1,665)	(135)
Credited to the income statement in the year	1,335	1,721
Credited/(charged) to other comprehensive income in the year	(3)	188
Balances arising from business acquisition	–	(3,439)
At end of year	(333)	(1,665)

10 Taxation (continued)
(d) Deferred tax (continued)

	Accelerated tax depreciation £'000	Share based payments £'000	Tax losses carried forward £'000	Total deferred tax assets £'000
Deferred tax assets				
At 30 March 2015	358	43	–	401
Credited/(charged) to income statement	(251)	(139)	(121)	(511)
Credited to equity	–	188	–	188
Balances arising from business acquisition	7	155	889	1,051
At 28 March 2016	114	247	768	1,129
Credited/(charged) to other comprehensive income in the year	–	(3)	–	(3)
Credited/(charged) to income statement	69	618	(117)	570
At 3 April 2017	183	862	651	1,696

	Rolled over gains £'000	Short-term timing differences £'000	Total deferred tax liabilities £'000
Deferred tax liabilities			
At 30 March 2015	(304)	(232)	(536)
Credited to income statement	15	2,217	2,232
Balances arising on acquisition	–	(4,490)	(4,490)
At 28 March 2016	(289)	(2,505)	(2,794)
Credited to income statement	30	735	765
At 3 April 2017	(259)	(1,770)	(2,029)

	Year ended 3 April 2017 £'000	Year ended 28 March 2016 £'000
Deferred tax assets	1,696	1,129
Deferred tax liabilities	(2,029)	(2,794)
	(333)	(1,665)

Deferred tax on losses of £11.5m has not been recognised in these financial statements.

(e) Factors that may affect future tax charges

The Group's overseas tax rate is higher than that in the UK as profits earned by Les Celliers de Calais S.A.S. in France are taxed at a rate of 33.3% (2016: 33.3%) and profits earned by its Naked Wines subsidiaries in the United States of America and Australia are taxed at 39.8% and 28.5% respectively.

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries as following the enactment of the Finance Act 2009 the Group considers that it would have no liability to additional taxation should such amounts be remitted.

Notes to the financial statements
continued**11 Earnings per share**

Basic earnings per share is calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares in issue of the Company, excluding 4,920,863 contingently returnable shares issued as a result of the acquisition of Naked Wines (which have been treated as dilutive share options) and 3,934 (2016: 3,934) held by the Employee Share Ownership Trust which are treated as cancelled.

The dilutive effect of share options is calculated by adjusting the weighted average number of ordinary shares in issue to assume conversion of all dilutive potential ordinary shares. These comprise contingently returnable shares and share options granted to employees where the exercise price is less than the average market price of the Company's Ordinary Shares during the year. Share options granted over 475,453 (2016: 331,200) ordinary shares have not been included in the dilutive earnings per share calculation because they are anti-dilutive at the period end.

Adjusted earnings per share is calculated by excluding the effect of adjusted items (see note 6). This alternative measure of earnings per share is presented so that users of the financial statements can better understand the Group's underlying trading performance.

	Year ended 3 April 2017	Year ended 28 March 2016
(Loss)/earnings per share		
Basic (loss)/earnings per share	(4.1p)	3.5p
Diluted earnings per share	N/A	3.3p
Adjusted basic earnings per share	17.7p	19.2p
Adjusted diluted earnings per share	16.3p	18.1p
	Year ended 3 April 2017 £'000	Year ended 28 March 2016 £'000
(Loss)/profit for the period	(2,695)	2,324
Add back adjusted items:		
– Non-cash charges relating to acquisitions	11,267	11,508
– Other adjusted items	3,078	(1,230)
Adjusted profit after taxation	11,650	12,602
	Year ended 3 April 2017 £'000	Year ended 28 March 2016 £'000
Weighted average number of shares in issue	65,848,467	65,759,587
Dilutive potential ordinary shares:		
Employee share options and contingently returnable shares	5,598,621	3,872,946
Weighted average number of shares for the purpose of diluted earnings per share	71,447,088	69,632,533
Total number of shares in issue	70,778,262	70,756,562

If all the Company's share option schemes had vested at 100% the Company would have 74,913,212 issued shares.

12 Dividends

	Year ended 3 April 2017 £'000	Year ended 28 March 2016 £'000
Equity dividends declared and paid during the year:		
Interim dividend: 1.5p (2016: nil)	1,062	–
Equity dividends paid	1,062	–
Proposed for approval by the shareholders at the AGM:		
Final dividend: 3.6p (2016: nil)	2,548	–

13 Goodwill and intangible assets

	Goodwill £'000	Facilities and trademark licence £'000	Customer lists £'000	Brands £'000	Software £'000	Total £'000
Cost						
At 30 March 2015	9,617	2,985	–	–	6,269	18,871
Additions	–	–	–	–	973	973
On acquisition	29,162	–	14,300	10,100	900	54,462
Disposals	–	–	–	–	(14)	(14)
Foreign currency	591	–	–	–	–	591
At 28 March 2016	39,370	2,985	14,300	10,100	8,128	74,883
Additions	–	–	–	–	190	190
Disposals	–	–	–	–	(1)	(1)
Foreign currency	572	–	–	–	–	572
At 3 April 2017	39,942	2,985	14,300	10,100	8,317	75,644
Accumulated amortisation						
At 30 March 2015	(4,711)	(1,350)	–	–	(3,808)	(9,869)
Charge for the year	–	(225)	(2,325)	(1,231)	(1,588)	(5,369)
Impairment	(2,606)	–	–	–	–	(2,606)
Disposals	–	–	–	–	12	12
Foreign currency	(380)	–	–	–	–	(380)
At 28 March 2016	(7,697)	(1,575)	(2,325)	(1,231)	(5,384)	(18,212)
Charge for the year	–	(225)	(2,383)	(1,263)	(1,747)	(5,618)
Disposals	–	–	–	–	1	1
Foreign currency	(368)	–	–	–	–	(368)
At 3 April 2017	(8,065)	(1,800)	(4,708)	(2,494)	(7,130)	(24,197)
Net book value						
At 3 April 2017	31,877	1,185	9,592	7,606	1,187	51,447
At 28 March 2016	31,673	1,410	11,975	8,869	2,744	56,671
At 30 March 2015	4,906	1,635	–	–	2,461	9,002

Impairment testing of goodwill

Goodwill is tested annually for impairment, or more frequently if there are indications that goodwill may be impaired. Goodwill acquired through business combinations has been allocated for impairment testing purposes to CGUs. The recoverable amount of a CGU is determined based on value in use calculations.

Notes to the financial statements

continued

13 Goodwill and intangible assets (continued)

An analysis of goodwill and intangible assets by CGU is shown below:

	Goodwill £'000	Facilities and trademark licence £'000	Customer lists £'000	Brands £'000	Software £'000	Total £'000
Naked Wines CGU	29,162	–	9,592	7,606	11	46,371
Lay & Wheeler CGU		1,185	–	–	310	1,495
French Retail CGU	2,715	–	–	–	–	2,715
UK Retail CGU	–	–	–	–	813	813
Unallocated	–	–	–	–	53	53
At 3 April 2017	31,877	1,185	9,592	7,606	1,187	51,447

Amortisation

Intangible fixed assets are amortised on a straight line basis through the income statement, based on the following estimated useful lives:

Category of intangible asset	Total useful life	Life remaining
Customer list and relationships	6 years	4 years
Brand	8 years	6 years
Software	2–5 years	1–5 years
Licences	Over the term of the licence	

Customer lists and relationships and brands arise only on acquisition.

Impairment testing

Key assumptions

The key assumptions for calculating value in use are cash flows, long-term growth rate and discount rate.

Cash flow assumptions

The cash flows used in the value in use calculations are pre-tax cash flows based on the latest management forecasts in respect of the following five years, the first of which being the Board approved budget. An estimate of capital expenditure required to maintain these cash flows is also made.

Long-term growth rate assumptions

The five-year management forecasts are extrapolated in perpetuity using a growth rate of 2.0% for the Naked Wines CGU and held flat in perpetuity for the French Retail CGU. This is not considered to be higher than the average long-term industry growth rate. The long-term growth rate is common to all CGUs.

Discount rate assumptions

The discount rate applied to the cash flows is calculated using a pre-tax rate based on the weighted average cost of capital ("WACC") which would be anticipated for a market participant investing in the Group. Management believes it is appropriate to use a single common discount rate for all impairment testing as each CGU shares similar risk profiles. The Group has considered the impact of the current economic climate in determining the appropriate discount rate to use in impairment testing.

At 3 April 2017, the pre-tax rate used to discount the forecasted cash flows has been determined to be 10.0% (2016: 9.8%).

14 Property, plant and equipment

	Land and buildings			Equipment fittings and vehicles	Total
	Freehold £'000	Long leasehold £'000	Leasehold improvements £'000	fittings and vehicles £'000	£'000
Cost					
At 30 March 2015	41,585	6,111	25,460	34,302	107,458
Additions	323	67	1,241	3,363	4,994
On acquisition	–	–	28	463	491
Retranslation	–	–	53	77	130
Disposals	(1,599)	–	(757)	(974)	(3,330)
At 28 March 2016	40,309	6,178	26,025	37,231	109,743
Additions	223	30	413	2,645	3,311
Disposals	–	–	(237)	(424)	(661)
Foreign currency	–	–	55	222	277
At 3 April 2017	40,532	6,208	26,256	39,674	112,670
Accumulated depreciation					
At 30 March 2015	(4,034)	(234)	(10,864)	(19,694)	(34,826)
Charge for the year	(456)	(96)	(1,781)	(2,996)	(5,329)
Impairment and impairment reversals	176	–	(1,197)	(218)	(1,239)
Disposals	–	–	(49)	(48)	(97)
Foreign currency	277	–	747	762	1,786
At 28 March 2016	(4,037)	(330)	(13,144)	(22,194)	(39,705)
Charge for the year	(452)	(104)	(1,739)	(3,155)	(5,450)
Disposals	–	–	227	400	627
Foreign currency	–	–	(48)	(83)	(131)
At 3 April 2017	(4,489)	(434)	(14,704)	(25,032)	(44,659)
Net book value					
At 3 April 2017	36,043	5,774	11,552	14,642	68,011
At 28 March 2016	36,272	5,848	12,881	15,037	70,038
At 30 March 2015	37,551	5,877	14,596	14,608	72,632

Freehold land and buildings includes £17,869,000 (2016: £17,869,000) in respect of land that is not depreciated. The gross value of fully depreciated assets in use was £23,072,000 (2016: £17,587,000).

Included within additions are assets held under construction totalling £nil (2016: £1,556,000).

Notes to the financial statements
continued**15 En primeur**

En primeur refers to the practice of purchasing wines before they are bottled and released onto the market. This method of purchasing gives the consumer the opportunity to secure wines that may be in limited quantity and very difficult to acquire after release. Receipts and payments for these wines may be up to two years before the wines are available to customers. Payments to suppliers are treated as prepayments and receipts from customers as deferred income until the wines are available to customers.

Analysis of en primeur balances

	Year ended 3 April 2017 £'000	Year ended 28 March 2016 £'000
En primeur purchases included in non current assets	1,841	1,291
En primeur purchases included in current assets	3,030	1,657
Total en primeur purchases	4,871	2,948
En primeur income included in current liabilities	(3,937)	(2,150)
En primeur income included in non current liabilities	(2,122)	(1,469)
Total en primeur deferred income	(6,059)	(3,619)
Net en primeur balance	(1,188)	(671)

Movement in en primeur balances

	Year ended 3 April 2017 £'000	Year ended 28 March 2016 £'000
Opening net balance	(671)	(612)
Movement in en primeur balance	(517)	(59)
Closing net balance	(1,188)	(671)

16 Prepaid operating leases

	Prepaid operating leases £'000
Cost	
At 30 March 2015	4,358
Additions	271
Disposals	(79)
At 28 March 2016	4,550
Additions	22
Disposals	(51)
At 3 April 2017	4,521
Amortisation	
At 30 March 2015	(2,176)
Additions	(241)
Disposals	40
Impairment	(58)
At 28 March 2016	(2,435)
Amortisation during the year	(233)
Reversal of impairment	39
Disposals	13
At 3 April 2017	(2,616)
Net Book Value	
At 3 April 2017	1,905
At 28 March 2016	2,115
At 30 March 2015	2,182

The amortisation of prepaid lease costs is included within distribution costs in the income statement.

Notes to the financial statements
continued**17 Inventories**

	3 April 2017 £'000	28 March 2016 £'000
Raw materials	4,688	122
Work in progress	22,675	7,417
Finished goods	67,471	73,193
	94,834	80,732

Inventory of £612,000 (2016: £465,000) was expensed through the income statement in the year relating to samples and tasting products.

18 Trade and other receivables

	3 April 2017 £'000	28 March 2016 £'000
Trade receivables	6,208	8,312
Other debtors	5,386	1,317
Prepayments and accrued income	3,379	2,787
	14,973	12,416

Trade receivables are shown net of a provision for impairment. The movements in the provision for impairment of receivables were as follows:

	3 April 2017 £'000	28 March 2016 £'000
At beginning of year	(206)	(151)
Charge for the year	(95)	(106)
Uncollected amounts written off	83	51
	(218)	(206)

19 Trade and other payables

	3 April 2017 £'000	28 March 2016 £'000
Trade payables	35,082	40,018
Other taxes and social security	10,139	8,344
Accruals and other payables	10,798	13,439
	56,019	61,801

Amounts payable in respect of defined contribution pension schemes were £114,000 (2016: £197,000).

20 Bank and other borrowings

	3 April 2017 £'000	28 March 2016 £'000
Current		
Bank overdrafts	12,537	3,071
Customer bond finance	2,619	4,990
Total bank and other borrowings due within one year	15,156	8,061
Non-current		
Revolving credit facility	34,000	25,000
Debt issuance costs	(488)	(683)
Total bank and other borrowings due within one year	33,512	24,317
Total bank and other borrowings	48,668	32,378

In order to finance the acquisition of Naked Wines in April 2015, the Group entered into a revolving credit facility of £85m which is due to mature in April 2020. Interest has been charged at margins between 1% and 1.5% above LIBOR, depending on the Group's leverage (being net debt/EBITDA).

Banking covenants are in place and are tested biannually. The covenants tested are the Group's leverage and interest cover (being adjusted EBITDA/net finance charges).

On 10 April 2017, the amount available under the revolving credit facility dropped from £85m to £80m, in line with the agreed terms of the facility.

21 Financial instruments

The Group's financial instruments, other than derivatives, comprise cash, bank borrowings and various balances, such as trade receivables and trade payables, all arising directly from its operations.

The Group also enters into derivative financial instruments, in the form of forward foreign currency contracts. The purpose of these transactions is to manage the currency risk arising from the Group's operations. The Group does not hold or issue financial instruments for speculative purposes and does not engage in speculative trading.

The principal financial risks to which the Group is exposed relate to liquidity risk, credit risk, interest rates, market risk and foreign exchange rates.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. In order to manage liquidity risk, each business unit prepares short-term and medium-term cash flow forecasts. These forecasts are consolidated and reviewed centrally to ensure that the Group has sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without risking damage to the Group's reputation. The Group has access to a revolving credit facility agreed with Barclays Bank PLC. The facility is reviewed annually and expires in April 2020. The facility consists of a revolving credit term facility and an overdraft. The aggregate of the total borrowing facilities at 3 April 2017 were £85m (2016: £85m) of which £34m was drawn down at the balance sheet date.

The Group's net debt level can vary from month to month and there is some volatility within months. This reflects seasonal trading patterns, timing of receipts from customers and payments to suppliers, patterns of inventory holdings and the timing of the spend on major capital and restructuring projects. For these reasons the debt levels at the period end date may not be indicative of debt levels at other points throughout the period.

Notes to the financial statements
continued**21 Financial instruments (continued)****Liquidity risk (continued)**

The following table analyses the Group's financial assets and liabilities into relevant maturity groupings based on the contractual undiscounted cash flows.

At 3 April 2017	Due within 1 year £'000	Due between 1 and 2 years £'000	Due between 2 and 3 years £'000	Due after 3 years £'000	Total £'000
Financial assets					
Trade and other receivables (including cash and cash equivalents)	37,980	–	–	–	37,980
Financial instruments at fair value	–	–	–	–	–
	37,980	–	–	–	37,980
Financial liabilities					
Trade and other payables	(45,881)	–	–	–	(45,881)
Bank overdraft	(12,537)	–	–	–	(12,537)
Revolving credit facility	–	–	–	(33,512)	(33,512)
Financial instruments at fair value	(1,090)	–	–	–	(1,090)
Customer funded bond	(2,619)	–	–	–	(2,619)
	(62,127)	–	–	(33,512)	(95,639)

At 28 March 2016	Due within 1 year £'000	Due between 1 and 2 years £'000	Due between 2 and 3 years £'000	Due after 3 years £'000	Total £'000
Financial assets					
Trade and other receivables (including cash and cash equivalents)	16,504	–	–	–	16,504
Financial instruments at fair value	889	–	–	–	889
	17,393	–	–	–	17,393
Financial liabilities					
Trade and other payables	(53,457)	–	–	–	(53,457)
Bank overdraft	(3,071)	–	–	–	(3,071)
Revolving credit facility	–	–	–	(24,317)	(24,317)
Customer funded bond	(4,990)	–	–	–	(4,990)
	(61,518)	–	–	(24,317)	(85,835)

21 Financial instruments (continued)**Liquidity risk (continued)**

The following table analyses the Group's derivative financial instruments into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed are the undiscounted cash flows.

	Due within 1 year £'000	Due between 1 and 2 years £'000	Due between 2 and 3 years £'000	Total £'000
At 3 April 2017				
Outflow	(61,216)	–	–	(61,216)
Inflow	60,077	–	–	60,077
	(1,139)	–	–	(1,139)
	Due within 1 year £'000	Due between 1 and 2 years £'000	Due between 2 and 3 years £'000	Total £'000
At 28 March 2016				
Outflow	(25,830)	–	–	(25,830)
Inflow	26,690	–	–	26,690
	860	–	–	860

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers.

There are no significant concentrations of credit risk within the Group. The maximum credit risk exposure relating to financial assets is represented by its carrying value as at the balance sheet date limited to the value of trade and other receivables. The Group uses a credit referencing agency to establish third party's credit worthiness before offering to sell on deferred terms. Credit limits are assigned to each debtor account and compliance is monitored. In addition trade debtor balances are regularly reviewed with the result that the Group's exposure to bad debts is not significant.

As at the balance sheet date, the ageing analysis of trade receivables that were past due but not impaired is as follows:

	Total trade debtors £'000	Current £'000	Up to 3 months past due £'000	3–6 months past due £'000	Over 6 months past due £'000
At 3 April 2017	6,208	3,788	2,012	145	263
At 28 March 2016	8,312	4,355	3,711	241	5

There are no indicators of impairment for those debtors that are neither past due nor impaired.

At 3 April 2017, trade and other receivables of £218,000 (2016: £206,000) were determined to be specifically impaired and provided for. The total includes receivables from customers which are considered to be experiencing difficult economic situations.

Movements in the provision for impairment of trade receivables are as follows:

	3 April 2017 £'000	28 March 2016 £'000
At beginning of year	(206)	(151)
Charge for the year	(95)	(106)
Uncollected amounts written off	83	51
	(218)	(206)

Credit risk also arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions. The Group ensures that the banks used for the financing of loan facilities and foreign exchange forward contracts are reputable, large institutions with acceptable risk ratings.

Notes to the financial statements

continued

21 Financial instruments (continued)

Interest rate risk

The Group's interest rate risk arises primarily from its revolving credit facility. As at 3 April 2017, the Group had £34m drawn down on its revolving credit facility.

Market risk

Market risk is the risk that changes in market prices, such as foreign currency exchange rates and interest rates, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. The Group manages foreign currency risk as detailed below. The Group does not currently enter into any interest rate swaps or other derivative financial instruments to mitigate the risk of rising interest rates.

Foreign currency exchange rates

The Group's presentation currency is sterling although some transactions are executed in non-sterling currencies, including Euros, US dollars and Australian dollars. The transactional amounts realised or settled are therefore subject to the effect of movements in these currencies against sterling. It is the Group's policy to manage the exposures arising using forward foreign currency exchange contracts. Hedge accounting is not sought for these transactions. The Group generates some of its profits in non-sterling currencies and has assets in non-sterling jurisdictions, principally the Euro, US dollar and Australian dollar. The principal foreign currencies affecting the translation of subsidiary undertakings within the Group financial statements are these currencies. The rates applicable are as follows:

	3 April 2017 £'000	28 March 2016 £'000
Principal rate of exchange		
Euro: Sterling		
Period end	1.172	1.267
Average	1.192	1.363
US dollar: Sterling		
Period end	1.248	1.414
Average	1.311	1.509
Australian dollar: Sterling		
Period end	1.643	1.882
Average	1.709	2.054

The Group does not use derivatives to hedge balance sheet and profit and loss translation exposures arising on the consolidation of the French, US and Australian subsidiaries.

The following table demonstrates the sensitivity to a reasonably possible change in the Sterling against the exchange rates with all other variables held constant, of the Group's profit before tax:

	Sensitivity in exchange rate	Impact of increase in rate £'000	Impact of decrease in rate £'000
Year ended 3 April 2017			
Euro: Sterling	5%	(2,591)	2,799
US dollar: Sterling	5%	(164)	181
Australian \$: Sterling	5%	(43)	47
New Zealand \$: Sterling	5%	(146)	160
Year ended 28 March 2016			
Euro: Sterling	5%	(342)	1,940
US dollar: Sterling	5%	(66)	201
Australian \$: Sterling	5%	26	83

21 Financial instruments (continued)**Foreign currency exchange rates (continued)**

The table below shows the Group's currency exposures that gave rise to net currency gains and losses recognised in the consolidated statement of profit or loss as a result of monetary assets and liabilities that are not denominated in the functional currency of the subsidiaries involved.

	3 April 2017 £'000	28 March 2016 £'000
Currency:		
Sterling	14,730	4,944
Euro	5,153	566
US dollar	2,259	662
Australian dollar	865	689
New Zealand dollar	–	14
Sub-total	23,007	6,875
Bank overdraft:		
Sterling	(12,537)	(3,071)
Total	10,470	3,804

Fair value

The Group enters into forward foreign currency exchange contracts in order to hedge the Group's forecast currency requirements. These are held for hedging purposes with fair value movements being recognised in the income statement.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

There have been no financial instruments which have transferred between the levels in the hierarchy as detailed above.

The nominal and fair value of forward currency contracts is shown in the following table. All contracts have maturity dates within one year. The fair value of these instruments was determined using quoted forward exchange rates matching the maturities of the contracts. The Group's measurement of their financial instruments meets the criteria of Level 2 and hence all have been included in this classification.

	Fair value		
	Nominal value £'000	Assets £'000	Liabilities £'000
Forward foreign currency contracts as at 3 April 2017	60,116	–	(1,090)
Forward foreign currency contracts as at 28 March 2016	26,126	889	–

The Group considers its financial assets to be short-term trade and other receivables, cash and cash equivalents and its financial liabilities to be the bank overdraft and short-term trade and other payables. There is no material difference between the book value and the fair value of any financial asset or liability.

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value. The Group considers capital to consist of the total equity of the Group.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the current year.

The Group is not subject to externally imposed capital requirements.

Notes to the financial statements

continued

22 Provision for liabilities

	Dilapidations £'000	Social security costs £'000	Total £'000
At 30 March 2015	157	33	190
Provided in the year	121	481	602
Utilised in the year	(10)	(35)	(45)
At 28 March 2016	268	479	747
Provided in the year	–	406	406
Released in the year	(42)	–	(42)
Utilised in the year	(10)	(37)	(47)
At 3 April 2017	216	848	1,064

Dilapidations

The Group occupies various leasehold premises. In relation to stores that have either closed or are marked for closure in the near future, the Group provides for the costs of making good the leasehold property, in accordance with the terms of each lease. The provision is based on the Directors' best estimate of the expected costs involved. The expectation is that the amounts provided at the balance sheet date will be utilised in the next 12 months.

Social security costs

National insurance contributions which will become payable on exercise of share options have been provided. The share options can be exercised at various dates from the balance sheet date to 17 December 2024. The amount payable is dependent on the Company's share price at the date of exercise of the options. The provision which is allocated on a time weighted basis over the period from date of grant to the date that employees become unconditionally entitled to the options has been calculated on the share price at the balance sheet date of £3.22 and the assumption that 100% of employees will exercise their share options and that the rate of National Insurance Contribution (NIC) is 13.8%.

23 Deferred lease inducements

	3 April 2017 £'000	28 March 2016 £'000
Current	437	433
Non current	2,215	2,552
	2,652	2,985

Deferred lease inducements comprise rent free periods and premiums received from lessors in respect of operating leases. These lease incentives are recognised in the income statement on a straight-line basis over the full term of each relevant lease.

24 Share capital and reserves

	3 April 2017		3 April 2016	
	Number of shares	Value £'000	Number of shares	Value £'000
Authorised				
Ordinary shares of 7.5p each	140,000,000	10,500	140,000,000	10,500
Allotted, called up and fully paid				
At beginning of the year	70,756,562	5,307	65,656,349	4,924
Exercise of share options	21,700	2	179,350	14
Issue of acquisition related shares	–	–	4,920,863	369
At end of year	70,778,262	5,309	70,756,562	5,307

During the year 21,700 (2016: 179,350) ordinary shares of 7.5p each were allotted for a consideration of £66,000 (2016: £485,000). These shares were allotted under the terms of the Company's share option scheme which are described in note 26.

24 Share capital and reserves (continued)**Share premium account**

The share premium account represents the amounts received by the Company on the issue of ordinary shares that are in excess of the nominal value of the issued shares.

Capital reserve – own shares

The Group holds shares in an employee share ownership trust (see note 25). The reserve represents the cost of acquired shares that have not as yet fully vested with employees.

Capital redemption reserve

The Company, when cancelling its ordinary shares, transfers amounts equivalent to the nominal value of the cancelled shares into the capital redemption reserve so as to maintain the level of non-distributable reserves in shareholders' equity.

Currency translation reserve

The currency translation reserve represents exchange differences arising from the translation of foreign currency subsidiary undertakings.

25 Employee Share Ownership Trust

The Employee Share Ownership Trust acquires shares in Majestic Wine PLC to satisfy awards under the deferred bonus scheme. The shares are distributed to participants of the scheme at the end of a two-year deferral period.

At the year end the trust held 3,934 (2016: 3,934) shares with a nominal value of 7.5p each. The total acquisition cost of these shares was £17,000 (2016: £17,000). At the year end the market value of these shares was £13,000 (2016: £17,000).

26 Share based payments

The total charge recognised in the income statement in respect of share based payments (including social security costs) is £7,678,000 (2016: £7,460,000) relating to share option schemes and share bonus payments under the Company's deferred bonus scheme and in relation to the contingently returnable shares and share options that were issued to employees as part of the consideration for the acquisition of the Naked Wines group.

	Year ended 3 April 2017 £'000	Year ended 28 March 2016 £'000
Share option schemes	599	172
Acquisition related share schemes	6,673	6,846
NIC provided on share option schemes	406	442
At end of year	7,678	7,460

The Company operated four share option schemes during the year, all of which are equity-settled.

- The Majestic Wine PLC Approved Executive Share Option Scheme (2006) was adopted on 4 August 2006 and achieved HMRC approval for tax purposes on 7 December 2006. The first grant of options under the rules of this scheme was made in January 2007
- The Majestic Wine PLC 2006 Unapproved Employee Share Option Scheme was adopted on 4 August 2006. The first grant of options under the rules of this scheme was made in January 2007
- The Majestic Wine PLC Long Term Incentive Plan (LTIP) was adopted on 20 July 2017. The first grant of options under the rules of the scheme was made in July 2017. This scheme is unapproved.
- The Acquisition Related Share Schemes arose following the acquisition of Naked Wines on 10 April 2015. These schemes are unapproved.

Notes to the financial statements

continued

26 Share based payments (continued)

Approved and unapproved executive share option schemes (schemes (a) to (c) per above)

These schemes permit the grant of options in respect of Ordinary Shares to selected employees. Options are normally exercisable between three and 10 years from the date of grant for consideration not less than market value at grant date. Apart from grants of options to executive Directors, the exercise of options is not subject to any conditions other than continuous employment. The exercise of options granted to executive Directors is conditional on the achievement of specified performance targets related to growth in earnings per share over a three-year period. The executive Directors' participation in the Group's executive share option schemes is limited such that they are eligible to receive options over shares in value up to a maximum of two times gross salary at the date of grant which will only become exercisable on the achievement of performance criteria determined by the Remuneration Committee.

The following table reconciles the number of share options outstanding and the weighted average exercise price (WAEP):

	Year ended 3 April 2017		Year ended 28 March 2016	
	Options	WAEP	Options	WAEP
Outstanding at the beginning of the year	1,514,400	£4.26	2,845,342	£3.25
Exercised	(21,700)	£3.01	(179,350)	£2.70
Lapsed	(497,050)	£2.66	(1,151,592)	£2.00
Granted	1,951,116	£nil	–	–
Outstanding at the end of the year	2,946,766	£1.72	1,514,400	£4.26
Exercisable at the end of the year	803,000	£4.43	405,400	£3.63
Weighted average remaining contractual life in years	4.37	–	6.93	–
Range of exercise prices	£nil – £5.41	–	£nil – £5.41	–

Share options were exercised on a regular basis throughout the year. The weighted average share price for options exercised during the year was £3.01 (2016: £2.70).

The following table shows the number of share options outstanding by share option scheme:

	3 April 2017	28 March 2016
1996 Approved scheme	–	12,700
2006 Approved scheme	751,600	981,500
2006 Unapproved scheme	439,400	520,200
Long term incentive plan	1,755,766	–
Outstanding as at the end of the year	2,946,766	1,514,400

The fair value of equity-settled share options is estimated as at the date of grant using the Black-Scholes option pricing model for schemes (a) to (b) and using the Monte Carlo model for (c)

26 Share based payments (continued)

The following table lists the range of assumptions applied to the options granted in the respective periods shown.

	Long Term Incentive Plan Year ended 3 April 2017	Executive Option Schemes Year ended 3 April 2017	Long Term Incentive Plan Year ended 28 March 2016	Executive Option Schemes Year ended 28 March 2016
Weighted average share price at grant	£3.79	–	–	–
Weighted average exercise price	£nil	–	–	–
Expected life of options (years)	3–5	–	–	–
Contractual life (years)	3–5	–	–	–
Volatility (%)	31.8%–38.7%	–	–	–
Dividend yield (%)	2.1%	–	–	–
Risk free interest rate (%)	0.25%–0.33%	–	–	–
Weighted average fair value of options granted during the year	£2.20	–	–	–

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

Acquisition related share schemes (scheme (d) per above)

As part of the consideration for the acquisition of Naked Wines, an amount of up to £20m is payable to the previous shareholders and employees of Naked Wines in Majestic PLC's ordinary share capital, conditional on the achievement of certain performance criteria (the acquisition-related share schemes). The number of shares was calculated with reference to the share price as at the date of acquisition.

A portion of the shares have been issued in the form of contingently returnable shares and the remaining portion represent share awards that will vest upon achievement of the performance criteria over a maximum period of four years. As continuing employment is a requirement for the final vesting of these shares IFRS 2 Share Based Payments has been applied to this element of the consideration and the amounts are being recorded in the Group income statement over the next four years.

	Issued	To be issued	Total
Number of shares	4,920,863	1,192,118	6,112,981

Subsequent to the balance sheet date, the performance criteria were met for the first tranche of these share awards and consequently 434,115 shares vested and were issued on 27 April 2017. Additionally, 1,853,835 contingently returnable shares became unrestricted on the same date.

The following table reconciles the number of share options outstanding and the weighted average exercise price (WAEP):

	Year ended 3 April 2017		Year ended 28 March 2016	
	Options	WAEP	Options	WAEP
Issued as contingently returnable	–	£nil	4,920,863	£nil
Lapsed	(173,278)	£nil	–	–
Granted as future share issues	–	–	1,365,396	£nil
Outstanding at end of year	6,112,981	£nil	6,286,259	£nil
Exercisable at end of year	–	–	–	–
Weighted average remaining contractual life in years	1.99	–	1.90	–
Range of exercise prices	£nil	£nil	£nil	£nil

Notes to the financial statements

continued

26 Share based payments (continued)

The fair value of equity-settled share options is estimated as at the date of grant using the Black Scholes option pricing model. The following table lists the range of assumptions applied to the options granted in the respective years shown:

	3 April 2017	28 March 2016
Weighted average share price at grant	–	£3.18
Weighted average exercise price	–	£nil
Expected life of options (years)	–	2–4 years
Contractual life (years)	–	2–4 years
Volatility (%)	–	39%
Dividend yield (%)	–	1.0–2.6%
Risk free interest rate (%)	–	1.10%
Weighted average fair value of options granted during the year	–	n/a

27 Commitments

Operating lease commitments where Group is lessee:

The Group leases various stores, offices, warehouses and equipment under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

	3 April 2017 £'000	28 March 2016 £'000
Future minimum amounts payable under non-cancellable operating leases		
Within one year	12,157	11,585
Between one and five years	40,242	39,140
Over five years	33,765	37,571
	86,164	88,296

Operating lease commitments where Group is lessor:

The Group leases surplus space in various owner-occupied stores, offices and warehouses under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

	3 April 2017 £'000	28 March 2016 £'000
Future minimum amounts receivable under non-cancellable operating leases:		
Within one year	940	902
Between one and five years	3,159	2,954
Over five years	954	1,544
	5,053	5,400

The total of future minimum payments expected to be received under non-cancellable subleases amounts to £2,304,000 (2016: £3,570,000).

Capital expenditure commitments

Capital expenditure authorised and contracted for but not provided in the accounts amounts to £137,000 for the Group (2016: £271,000).

28 Notes to the cash flow statement**a) Reconciliation of profit to cash generated/(utilised) by operations**

	Year ended 3 April 2017 £'000	Year ended 28 March 2016 £'000
Cash generated by operations		
Operating (loss)/profit	(246)	6,283
Add back:		
– Depreciation and amortisation	11,301	10,939
– Profit on disposal of property, plant and equipment	(6)	(4,801)
– Impairment of goodwill	–	2,606
– Impairment of property, plant and equipment	–	1,239
– Impairment of prepaid operating leases	(38)	58
– Fair value movement on foreign exchange contracts	957	(830)
– En primeur movement in income statement	517	59
– Share based payment charges	7,678	7,460
Operating cashflows before movements in working capital	20,163	23,013
(Increase)/decrease in inventories	(9,787)	(13,276)
Increase in customer funds in deferred income	8,044	3,946
(Increase)/decrease in trade and other receivables	(4,876)	3,383
Increase/(decrease) in trade and other payables	(4,417)	1,584
Cash generated by operations	9,127	18,650

b) Cash and cash equivalents

	Year ended 3 April 2017 £'000	Year ended 28 March 2016 £'000
Cash and cash equivalents		
Cash and cash equivalents	23,007	6,875
Bank overdraft	(12,537)	(3,071)
Total cash and cash equivalents	10,470	3,804

Notes to the financial statements

continued

28 Notes to the cash flow statement (continued)

c) Analysis of movement in net borrowings

	At 28 March £'000	Cash flows £'000	Non-cash movements £'000	At 3 April 2017 £'000
Cash and cash equivalents	6,875	15,780	352	23,007
Bank overdrafts	(3,071)	(9,466)	–	(12,537)
Net cash and cash equivalents	3,804	6,314	352	10,470
Borrowings – revolving credit facility	(25,000)	(9,000)	–	(34,000)
Borrowings – customer funded bond	(4,990)	2,371	–	(2,619)
Gross borrowings net of cash	(29,990)	(6,629)	–	(36,619)
Debt issuance costs	683	–	(195)	488
Total net borrowings	(25,503)	(315)	157	(25,661)

29 Post balance sheet events

Subsequent to the balance sheet date, the performance conditions were met for the first tranche of Naked Wines acquisition shares. As a result, this tranche vested on 27 April 2017 and 29 members of the Naked Wines management team were granted 434,115 new Ordinary Shares of 7.5p each in the Company. The trading restrictions in place over 1,853,835 acquisition shares were removed on the same date.

On 10 April 2017 the amount available under the Group's revolving credit facility dropped from £85m to £80m, in line with the agreed terms of the facility.

30 Related party transactions

Sales and purchases between related parties are made at arm's length prices. The Group has not benefited from any guarantees for any related party receivables or payables. During the year ended 3 April 2017, the Group has not made any provision for doubtful debts relating to amounts owed by related parties (2016: nil).

The Group considers its key management personnel to be the Directors of the Company. The compensation of key management personnel is disclosed in note 8.

There are no other related party transactions which require disclosure.

Company balance sheet

As at 3 April 2017

	Notes	3 April 2017 £'000	28 March 2016 £'000
Non current assets			
Investments in subsidiaries	32	70,777	68,770
Intangible assets		52	–
		70,829	68,770
Current assets			
Trade and other receivables	33	4	12
Amounts due from Group undertakings	33	18,852	372
Cash and cash equivalents		6	1
		18,862	385
Total assets		89,691	69,155
Current liabilities			
Trade and other payables	34	(1,118)	(848)
Amounts due to Group undertakings	34	–	(28)
		(1,118)	(876)
Non-current liabilities			
Provisions		(358)	–
Bank loan	35	(33,512)	(24,317)
		(33,870)	(24,317)
Total liabilities		(34,988)	(25,193)
Net assets		54,703	43,962
Shareholders' funds			
Called up share capital	24	5,309	5,307
Share premium	24	20,505	20,441
Capital redemption reserve		363	363
Retained earnings		28,526	17,851
Equity shareholders' funds		54,703	43,962

The financial statements of Majestic Wine plc were approved by the Board of Directors and authorised for issue on 14 June 2017. They were signed on its behalf by James Crawford:

Company statement of changes in equity

For the year ended 3 April 2017

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Retained earnings £'000	Total shareholders' funds £'000
At 30 March 2015	4,924	19,970	363	12,014	37,271
Total comprehensive (losses)/income for the period	–	–	–	(2,861)	(2,861)
Shares issued in relation to acquisition	370	–	–	(289)	81
Shares issued	13	471	–	–	484
Share based payment charges – subsidiary employees	–	–	–	2,046	2,046
Share based payment charges – company	–	–	–	4,972	4,972
Capital contribution to subsidiary undertaking	–	–	–	1,969	1,969
At 28 March 2016	5,307	20,441	363	17,851	43,962
Total comprehensive income for the period	–	–	–	4,463	4,463
Shares issued	2	64	–	–	66
Share based payment charges – subsidiary employees	–	–	–	2,007	2,007
Share based payment charges – Company	–	–	–	5,267	5,267
Dividends paid	–	–	–	(1,062)	(1,062)
At 3 April 2017	5,309	20,505	363	28,526	54,703

Company cash flow statement

For the year ended 3 April 2017

	Year ended 3 April 2017 £'000	Year ended 28 March 2016 £'000
Net cash (utilised)/generated by operating activities		
Cash generated by operations	(18,221)	28,293
Net cash (utilised)/generated by operating activities	(18,221)	28,293
Cashflows from investing activities		
Dividend received	11,019	876
Purchase of intangible fixed assets	(35)	–
Acquisition of subsidiary, net of cash received	–	(44,600)
Acquisition costs and payments	–	(8,535)
Net cash outflow from investing activities	10,984	(52,259)
Cashflows from financing activities		
Interest paid	(674)	(755)
Issue of ordinary share capital	66	566
Draw down of borrowings	9,000	50,000
Repayment of borrowings	–	(25,000)
Loan arrangement fees paid	(88)	(844)
Equity dividends paid	(1,062)	–
Net cash inflow from financing activities	7,242	23,967
Net increase/(decrease) in cash	5	1
Cash and cash equivalents at beginning of year	1	–
Cash and cash equivalents at end of year	6	1
	Year ended 3 April 2017 £'000	Year ended 28 March 2016 £'000
Cash utilised by operations		
Operating loss	(5,769)	(2,626)
Add back:		
– Reversal of impairment of investment	–	(4,039)
– Share based payment charges	5,267	5,415
Operating cashflows before movements in working capital	(502)	(1,250)
(Increase)/decrease in trade and other receivables	(17,961)	28,666
Increase/(decrease) in trade and other payables	242	877
Cash generated by operations	(18,221)	28,293

Notes to the company financial statements

31 Significant accounting policies

The separate financial statements of the Company are presented as required by the Companies Act 2006. The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRSs).

No income statement is presented by the Company as permitted by section 408 of the Companies Act 2006. The Company's profit for the year was £4,463,000 (2016: loss of £2,861,000).

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are the same as those set out in note 2 to the consolidated financial statements except as noted below.

Investment

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

32 Investments in subsidiaries

	£'000
Cost or valuation:	
At 30 March 2015	15,915
Acquisition of Naked Wines	50,809
Net movement on share options granted/(lapsed) to subsidiary companies' employees	2,046
At 28 March 2016	68,770
Net movement on share options granted/(lapsed) to subsidiary companies' employees	2,007
At 3 April 2017	70,777

Amounts provided for:

At 30 March 2015	(4,039)
Reversal of impairment of subsidiary undertaking	4,039
At 28 March 2016 and 3 April 2017	–

Net book value

At 3 April 2017	70,777
At 28 March 2016	68,770
At 30 March 2015	11,876

An impairment provision against the Company's investment in Les Celliers de Calais S.A.S. was reversed in the previous year as a result of improved current and forecast trading.

32 Investments in subsidiaries (continued)

Details of the Company's subsidiaries at 3 April 2017 are as follows:

Subsidiary	Primary activity	Place of incorporation and operation	Proportion of ownership interest %
Majestic Wine Warehouses Limited	Retailing of wines, beers and spirits	United Kingdom	100
Lay & Wheeler Limited	Retailing and cellarage of fine wines	United Kingdom	100
Les Celliers de Calais S.A.S.	Retailing of wines, beers and spirits	France	100
Majestic Wine Employee Share Ownership Trust Limited	Trust company	United Kingdom	100
Naked Wines International	Holding company	United Kingdom	100
Vinotheque Holdings Limited	Property management	United Kingdom	100
Nakedwines.com Limited	Retailing of wines	United Kingdom	100
Naked Wines Prepayments Trustee Company Limited	Trustee company	United Kingdom	100
Nakedwines.com Inc	Retailing of wines	United States of America	100
Nakedwines.com Prepayment Protection Company LLC	Trustee company	United States of America	100
Naked Wines Australia Pty Limited	Retailing of wines	Australia	100
NWA (Prepayments) Pty Limited	Trustee company	Australia	100
Naked Fine Wine Bonds plc	Funding company	United Kingdom	100

With the exception of Les Celliers des Calais S.A.S. all of the Company's subsidiary undertakings share the same period end date. Les Celliers des Calais S.A.S. has a period end date of 31 March.

33 Trade and other receivables

	3 April 2017 £'000	28 March 2016 £'000
Amounts due from Group undertakings	18,852	372
Prepayments and accrued income	4	12
	18,856	384

The amounts due from Group undertakings have no fixed payment terms and are interest free.

Notes to the company financial statements
continued**34 Trade and other payables**

	3 April 2017 £'000	28 March 2016 £'000
Current		
Amounts due to Group undertakings	–	28
Accruals and other payables	(1,118)	848
	(1,118)	876
Non-current		
Provisions	358	–
Bank loan	33,512	24,317
	33,870	24,317

National insurance contributions which will become payable on exercise of share options have been provided. The share options can be exercised at various dates from the balance sheet date to 17 December 2024. The amount payable is dependent on the Company's share price at the date of exercise of the options. The provision which is allocated on a time weighted basis over the period from date of grant to the date that employees become unconditionally entitled to the options has been calculated on the share price at the balance sheet date of £3.22 and the assumption that 100% of employees will exercise their share options and that the rate of NIC is 13.8%.

35 Bank and other borrowings

	3 April 2017 £'000	28 March 2016 £'000
Non current		
Revolving credit facility	34,000	25,000
Debt issuance costs	(488)	(683)
Total bank and other borrowings	33,512	24,317

36 Share capital and share premium account

Details are disclosed in note 24 to the consolidated financial statements.

Shareholder information

Annual General Meeting

At the forthcoming AGM, Anita Balchandani, Ian Harding and James Crawford will retire by rotation and, being eligible, will offer themselves for re-election.

The AGM will be held at 11.30am on 9 August 2017 at Majestic House, The Belfry, Colonial Way, Watford, WD24 4WH. The Notice of Meeting will be separately distributed to shareholders.

Key contacts:

Company Secretary	Head of Public and Investor Relations
James Crawford Registered Office Majestic House The Belfry Colonial Way Watford WD24 4WH	Gabriella Clinkard Email: gabby.clinkard@majestic.co.uk Phone: 07891 206 239 Majestic House The Belfry Colonial Way Watford WD24 4WH
Nominated adviser and joint broker	Joint broker
Investec Bank (UK) Limited 2 Gresham Street London EC2V 7QP	Liberum Capital Ltd 25 Ropemaker Street London EC2Y 9LY
Auditor	Tax advisers
Deloitte LLP 3 Victoria Square Victoria Street St Albans Herts AL1 3TF	PriceWaterhouseCoopers LLP 10 Bricket Road St Albans Herts AL1 3JX
Solicitors	Bankers
Osborne Clarke Apex Plaza Forbury Road Reading RG1 1AX	Barclays Bank PLC Floor 27 1 Churchill Place London E14 5HP
Registrars	PR advisers
Capita Asset Services The Registry 34 Beckenham Road Beckenham Kent BR3 4TU	Instinctif Partners 65 Gresham Street London EC2V 7NQ

Company registration no: 2281640

Financial calendar

9 August 2017 – AGM

25 September 2017 – Half Year End

November 2017 – Interim Results

January 2018 – Christmas Trading statement

2 April 2018 – Year End

Definitions

- 1) Total active customers are customers who have made a purchase at Majestic in the past year plus Naked Wines Mature Angels.
- 2) Like for like sales trends refer to Retail sales only, include Calais and exclude the impact of new stores and store closures in the year.
- 3) Analyst consensus estimates can be found on www.majesticwineplc.co.uk
- 4) Underlying movement (a) Includes the pro forma presentation of Naked Wines, assuming that Naked Wines was included in the Group results for the whole of the comparative period; (b) includes en primeur revenues in year of order not year of fulfilment; (c) is calculated using constant FX rates for translation with (d) restates the current year to a 52-week period comparable to the prior year.
- 5) Adjusted EBIT is operating profit adjusted for amortisation of acquired intangibles, acquisition costs, share based payment charges, impairment of goodwill, restructuring costs, fair value movement through P&L on financial instruments and adjusting en primeur results to reflect profits on orders rather than on wine fulfilment.
- 6) Adjusted PBT is defined as Adjusted EBIT less net finance charges.
- 7) Free cash flow is defined as cash generated by operating activities less capital expenditure and before one-off items and taxation.

Glossary

Group and KPIs	
Customer retention	% of repeat and loyal customers from 12 months ago that are still repeat and loyal customers, as measured from our customer databases
Product availability	% of targeted range available in stores/on websites as indicated by our inventory reporting
Team Retention	% of key staff (e.g. store managers) as of 12 months ago still working per payroll records
Buy It Again ratings	% of "Yes" scores in the last 12 months as recorded by websites/apps
5* Service ratings	% of service ratings scoring 5* in last two months as recorded by websites/apps/telephone feedback
ROI	Annual recurring contribution due to an investment
Contribution	Sales value less all product costs less costs of fulfilling the sale e.g. branch staff, credit card fees etc.
Like for like	Like-for-like sales trends refer to Retail sales only, include Calais and exclude the impact of new stores and store closures during the year
Underlying	Underlying movement (a) Includes the pro forma presentation of Naked Wines, assuming that Naked Wines was included in the Group results for the whole of the comparative period; (b) includes En primeur revenues in year of order not year of fulfilment; and (c) is calculated using constant FX rates for translation (d) restates the current year to a 52 week period comparable to the prior year.
Adjusted EBIT	Adjusted EBIT is operating profit adjusted for amortisation and impairments of acquired intangibles and goodwill, acquisition costs, share based payment charges, restructuring costs, net fair value movement through P&L on financial instruments and adjusting en primeur results to reflect profits on orders rather than on wine fulfilment
Adjusted PBT	Adjusted PBT is defined as Adjusted EBIT less net finance charges
Free cash flow	Free cash flow is defined as cash generated from operations less capital expenditure and excluding cash Adjusted items

Majestic Retail, Commercial and Lay & Wheeler	
Nurture customer	A customer who has shopped once
Active customer	A customer who has made a purchase in the last year
Repeat customer	A customer who has shopped more than once in the last year
Reactivation	Reactivating sales from a previous active customer who became dormant
NFC	National Fulfilment Centre based in Greenford which services around half of Majestic Retail online orders direct to the customer
Naked Wines	
Growth Spend	The proportion of total investment which is spent on growing the total Angel base
Contribution per new Mature Angel (CPNMA)	Contribution after subtracting all direct costs that are associated with maintaining that Angel (e.g. delivery, customer service, cost of sales, returns etc)
Mature Angel (MA)	A subscription customer for four months or more
Naked Wines steady state EBITDA	Profit that will be made assuming no new Angels are recruited. Mature Angel base x (annual contribution – (attrition % x CPNMA)) – fixed costs
ROI	$C - (A \times N) / N$ C = annual contribution, A = attrition rate, N = Cost per New Angel
Recalibration	Increasing the quality and lifetime spend of Angels through more targeted recruitment
Annual contribution	Number of orders per year x contribution per Mature Angel
Cohort	A group of Mature Angels recruited in the same Financial year
Customer attrition	(1 – customer retention %)



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